



# *Agrarian Unrest in Southeast Asia*

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TO  
LOTTE





## PREFACE

THE peasants of Southeast Asia are still today victims of the vicious circle of poverty and indebtedness. The dramatic post-war developments did not change the economic and social structure which determines the way of life of the peasants, and agrarian dissatisfaction and latent unrest have remained the fundamental problem of the countries in the area.

It has finally been realized in all quarters that political freedom is by no means identical with freedom from direct or indirect foreign economic control. The actual degree, however, of economic independence needed by the people of Southeast Asia to achieve their ultimate goal of economic and social emancipation has not yet been determined.

In this second revised edition, I have attempted to analyze the impact of the political, economic, and social developments of the last decade on the agrarian situation in the area. It is my sincere hope that this will be a modest contribution to the understanding of the problem of economic and social emancipation, so vital for the stabilization of democracy in the countries of Southeast Asia.

During the past ten years I have frequently had the opportunity to visit the area, and each time I have returned deeply impressed by the tireless efforts of the governments to overcome the obstacles to progress and eradicate the causes of dissatisfaction of the rural population. I am following their uphill fight with great admiration and humbleness, and I know that their achievements have been considerable in the short period of but ten years. In spite of the colonial past, war and devastation the process of political and economic maturing has been remarkable indeed and justifies confidence in the successful completion of the still greater task ahead.

I am greatly indebted to Asia Publishing House for having taken the initiative to publish this edition, and so give the book a home in Asia.

My wife, Lotte Jacoby, has given me her full support. Without her encouragement, critical attention, and cons-

tructive cooperation the revised manuscript would not have been written.

I am grateful to all those who have helped me in collecting material and data. I wish to state, however, that I alone am responsible for the statements and opinions expressed in this book.

Rome 1961

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## CHAPTER I

# GENERAL SURVEY

## INTRODUCTION

FOR many generations Southeast Asia has played an important role in international politics. During the colonial expansion it became the scene of immense economic enterprises and speculative adventures, and today its exports are still an important factor in the international balance of payments. Its population, however, though it provides the labour force for a steadily increasing production, ranks very low among the world's consumers.

Booms in the Western markets favour the few and almost by-pass the common people in Southeast Asia, while depressions are a disaster for both. Even slight recessions in the West tend to become depressions in the countries of Southeast Asia where a one-sided economy produces raw materials for a few highly sensitive key industries in Europe and the United States while manufacturing industries based on the purchasing power of the local population are still in the first stages of development.

Until the beginning of this century the Western world was mainly conscious of the glamour and splendour of the oriental courts and the colorful personalities of the ruling hierarchy, while but little was known about the sad living conditions of the people. In the following decades, however, the population emerged from the shadows of the political backstage and frankly exhibited their misery which they no longer wanted to tolerate. Their protest against the economic and social order ranged from passive resistance to active rebellion, from dignified demonstrations to mob riots. In the years following the last war the people of Southeast Asia manifested a desire for freedom unparalleled in its history, so rich in wars and intrigues between emperors and kings but poor in mass movements outside the sphere of religion.

Western reaction to this dramatic development was confused



and uncertain. Economic interests, political and strategic considerations, prestige and honest disappointment collided with deep sympathy for the people in Asia who struggled for independence and economic emancipation.

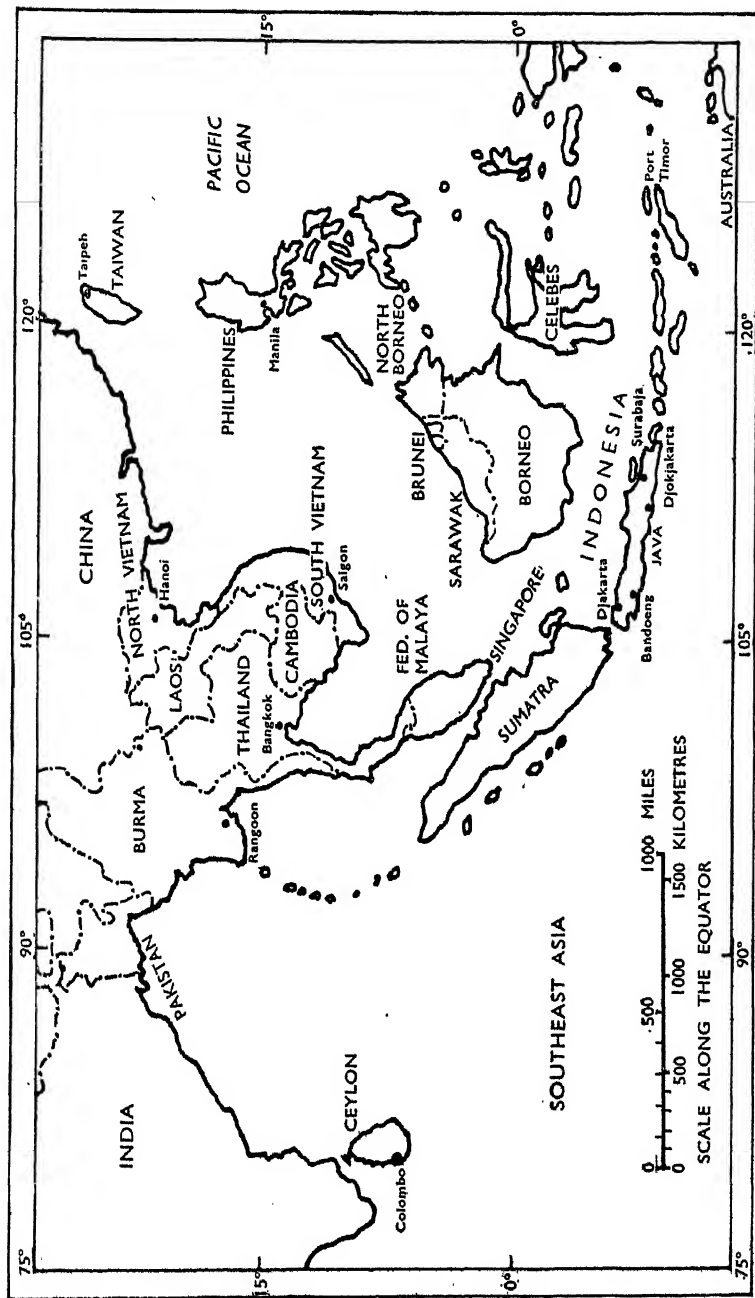
One by one the countries of Southeast Asia achieved the desired goal of political independence, but contrary to expectations this did not bring peace to the area. It is certainly true that the end of colonial rule made room for important changes in the political pattern of the area and released vital political and economic energies. It is equally true, however, that political independence did not automatically abolish the economic dependence on the West ; expediency forced the national governments to build the new states on the economic and social foundation of the colonial system and thus maintain its most characteristic features.

In order to provide the badly needed capital for economic development the production of export crops had to be continued, and the only possible way of obtaining immediate results was to maintain the established basis of production. This became an almost vital necessity, since all countries in Southeast Asia, with the exception of Thailand, first and foremost had to recover from the destruction and devastation of the war and endeavour to reach at least the pre-war level of production and living—a fact, by the way, which must be taken into serious consideration in any comparative analysis of achievements under colonial rule and during the early years of political independence.

The young states of Southeast Asia today are poor in capital and skills. The great majority of their population is still engaged in agriculture, and their exports of cash crops have remained highly sensitive to the fluctuations on the world market. With a few exceptions their peasants still use primitive and outdated cultivation methods and, more often than not, they are undernourished, poorly educated, penniless and miserable with but little energy for initiative. Though measures for fundamental changes are being planned and have partly been initiated all over the area, final social and economic emancipation is still a strong, though seldom clearly formulated, desire of the people.

Aid from individual foreign countries has been requested

# SOUTHEAST ASIA: ORIENTATION



and almost always been granted most generously. By its very nature, however, such aid has confirmed and, frequently, even strengthened the ties of economic dependence, a fact which partly explains certain negative reactions against foreign missions. This is particularly the case in those countries which achieved political independence without adequate preparation, and where structural deficiencies cause regional and tribal defections and often even economic and political disintegration which may invite intervention from abroad. Large-scale and well-composed multilateral aid programmes might be more suitable to help those countries establish an economically and politically well-balanced society.

It is of paramount importance to realize, however, that aid to countries struggling for economic and social progress is of limited value, unless it is given with the understanding that every technology has to be operated within its appropriate setting, and that the transfer of the essential elements of the setting, therefore, must be given the highest priority. The speed of the desired technical changes must be commensurate with the growth in the capacity of the people who are affected by them and consequently must be required and engineered by the people themselves. Foreign aid must be considered a stimulus for effecting essential changes. For the establishment of adequate rural institutions which will put an end to agrarian unrest this would mean that the decisive action must be planned and waged by the people themselves and that the scope of foreign aid must be to support the changes in the social environment by cautious technical advice, active sympathy, and the forbearance of disturbing interventions.<sup>1</sup>

The painful experience of the last fifteen years has taught the Western world the basic lesson that political and economic developments are connected all over the world. Franklin D. Roosevelt's famous words, "poverty anywhere constitutes danger to prosperity everywhere", are today fully accepted in the general political discussion and have become the justification for foreign aid to less advanced countries. Though these words do not always determine high-level political action,

<sup>1</sup> Sushil K. Dey, "The Role of Foreign Aid in Development", *Political Quarterly*, London, July-September 1959, pp. 283 ff.

the certainty that political and economic distress anywhere will have repercussions everywhere, is promoting a feeling of joint responsibility and an ever increasing urge for finding collective solutions.

Southeast Asia has an outstanding position among the underdeveloped areas of the world. Geographically, economically, and culturally it is part of the Far East, and since time immemorial has been a centre of civilization and battleground of recurring waves of immigration. It comprises the states of Indonesia, Malaya, Burma, Thailand, Laos, Cambodia, North and South Viet Nam, and the Philippines with a total population of 180 million people who are mostly engaged in agriculture and for whom the agrarian problem is of fundamental importance.

Since the beginning of this century Southeast Asia has been the largest producer and exporter of rubber and tin, and an important exporter of other prime commodities. The United States has always been a main market for these raw materials, and before the war its share in the exports from Southeast Asia was generally second only to that of the respective "mother countries". The import of United States goods, however, was rather limited since the colonial powers almost completely controlled and dominated the import business of their dependencies and in large measure used the dollar receipts from the export of raw materials to ease their exchange position with the United States. Southeast Asia thus came to hold a key position in the world's balance of payments, and Western Europe was able to maintain a level of living which was based less on its own export industries than on its capacity to control the raw material producing area of Southeast Asia. Western interests in this way became an integrated part of the problems of the area, and while the main objective of these interests was to perpetuate control in order to maintain a level of living which could not be envisaged on the basis of an exclusively European economy, the people of Southeast Asia began their struggle for political and economic emancipation.

Sporadic and more or less easily quenched outbursts of dissatisfaction with colonial rule grew into actual clashes and open rebellions, which during the last decade resulted in the establishment of politically independent states in the whole of

Southeast Asia. The mere fact of political independence, however, has not brought about a fundamental change in their economic relations with the Western powers. With the exception of Indonesia and the successor states of Indo-China, the trend to continuity and the pressure of vested interests has maintained the established channels of trade and exchange ; economic, social and political instability still mark large parts of Southeast Asia.

It is generally recognized today that the economic and social reconstruction of Southeast Asia is only a part of the serious endeavour to coordinate political, economic and social developments all over the world. It is not difficult to conceive that a historical process of such dimensions will claim sacrifices by privileged countries in the West but it must be realized that such sacrifices cannot be limited to contributions from the surplus of production and wealth. In periods of regression such aid is more than counterbalanced by the unfavourable terms of trade for the underdeveloped countries with their great export production of prime commodities. The economic and social emancipation of the people of Southeast Asia must be coordinated with Western progress, and this can only be achieved if economic dependence is replaced by a true partnership between the resources and wealth of the West and the resources and poverty of the East. Such coordination may reduce the economic position of the West, but when considering that 62 per cent of the world population will be concentrated in non-Russian Asia by the year 2000 as estimated by a UN forecast, it is easily understood that more than aid will be needed to prevent the disastrous effects of such population boost.

This book does not aim at a full analysis of the economic and social problems of Southeast Asia. It has been limited to an investigation of the main causes responsible for the delay in agricultural development and the latent agrarian unrest in the area. It is consequently focused on the problems of land tenure, of agricultural production, and of the social and economic changes which are the prerequisites for the active participation by the rural population in the development of their country.

## WESTERN PENETRATION

GENERAL TRENDS OF DEPENDENT ECONOMY. Once the countries of the Far East have become fully emancipated, the history of Western penetration will be written and understood differently. Future historians may credit the colonial administrations with putting an end to the political and economic despotism of cruel archaic rulers and encouraging the gradual disintegration of the tribal communities, thus preparing the way for a regional consciousness. They may emphasize that Western political, administrative and economic methods introduced the modern principles of statehood to large territories in the East and gave the people the spiritual impulse to seek a way out of the colonial relationship. Indeed, it cannot be denied that the colonial system has helped to change the old decaying communities of the East, caught in backward tyranny, caste system and superstition, and that by breaking the bonds of custom it has forced the people into national consciousness and the realities of world contacts.

The incursion of Western economy and Western ideas was in no respect more disturbing than the earlier invasions of Hinduism and Mohammedanism.<sup>2</sup> In fact, there seems little doubt that in some fields Western penetration was valuable, even though by its very nature it was so painful that those who were affected by it were hardly able to recognize the progressive aspect of the change.<sup>3</sup> The people of the East had suffered a brutal awakening at the hands of pirate traders and warriors, and their lot seemed but little happier when mercantilist-minded government officials succeeded the pirate traders and supplanted casual exploitation by a severe and highly efficient colonial administration. The advance of Western liberal ideas certainly influenced the colonial administrations also, and welfare policies were brought into effect which not only were favourable for the development of Western enterprises but to some extent also improved the living conditions of the people.

<sup>2</sup> Rupert Emerson, *Malaysia, a Study in Direct and Indirect Rule*, New York, 1937, p. 480.

<sup>3</sup> Solomon F. Bloom, *The World of Nations*, New York, 1941, p. 52.

The introduction of the Western money economy, however, slowly dissolved the self-sufficient village economy, and foreign trade and foreign ideas disturbed the established equilibria within the indigenous society. Almost everywhere peasants turned from subsistence farming to the cultivation of cash crops and became involved thereby in the price fluctuations of the world market and in the system of dependent economy. The degree to which they became involved naturally varied from country to country, but nobody remained unaffected—not even the farmers who were still engaged in pure subsistence farming.

In his triple capacity as land owner, producer and worker, the indigenous farmer became the loser. As he had no source of cash income he was defenceless when the money economy speeded the disintegration of the village community and the colonial method of production definitely tied him to the lowest standard of living. It is certainly true that the colonial administrations improved the health and the security of the population and thus gradually decreased the death rate. It neglected, however, to provide a correlative increase in economic opportunities which, on the contrary, were further reduced by the large-scale elimination of handicrafts brought about by the import of superior ready-made goods. The abundance of idle manpower in the densely peopled East today has become one of the most striking features of the agricultural problem in Southeast Asia.

The development of the dependent areas was held within the limits of, and adjusted to the needs and general policy of the colonial power, and their economic history, therefore, reflects the general trends in the Western world. Under Western guidance the colonies developed from mere sources of raw materials into important centres of commercialized agriculture and extracting industries, gradually gaining importance as markets and factors in the movement of international payments. The establishment of manufacturing industries, however, was almost always prevented or, at best, delayed. Economic penetration was not always combined with complete political control and a variety of political systems were applied ranging from direct to indirect rule. At times power politics even favoured the maintenance of

political independence, though the country in question was about to be reduced to the economic status of a colony.

In many areas of Southeast Asia Western penetration encountered and partly competed, partly cooperated, with Asian economic penetrations. In Malaya, for example, Chinese interests were already well-established, while in other countries Chinese business took advantage of the improved legal and economic security guaranteed by the colonial administration, and in hard competition with Western enterprises was able to win important positions within the economy. In Lower Burma, on the other hand, the task of colonial development was so immense that the Western power actually requested the assistance of Indian bankers, who thus became the financial pioneers of an unparalleled expansion of rice cultivation. Within a relatively short time they had gained economic control over the entire area, which soon created a serious political problem. Chinese and Indian penetrations, however, had but little life of their own. Their comparatively strong position was largely established in the wake of Western economic organization as an auxiliary in the trading and banking sector. In this study, therefore, the terms "Western economy" and "Western penetration" are applied to the sum total of economic activities responsible for the economic dependence of a country, even when Chinese and Indian interests are involved.

The variety of political and economic, social and racial difficulties all over Southeast Asia proves that the fundamental problem of the area is not the political status of the countries which could be solved merely by a declaration of independence, but the far more intricate problem of economic and social adjustment which can be solved only on a high level of political and economic reconstruction. Developments in Thailand, which was always sovereign, clearly indicate that the mere fact of political independence cannot outweigh the impact of economic dependence which is the decisive result of foreign economic penetration. In fact, Thailand's independent status which relieved the West of any political or economic responsibility even increased its economic weakness and lack of resistance in times of depression and may explain why that country still lags behind the former colonies in Southeast Asia in the fields of public health and services.



Economic dependence is not only a function of political dependence but is plainly evident wherever an economically weak country is subordinated to the economic interests of a stronger partner. Sound economic interdependence can only develop between countries which enjoy a comparable degree of economic independence. The establishment of politically independent but economically weak countries in Southeast Asia has, ironically enough, strengthened and, at times, even created the very factors which are generally considered obstacles to economic development. Such factors are :

- (1) The lack of an efficient local administrative staff which makes it necessary to retain foreign advisers and officials in the state machinery.
- (2) The inevitable protection of established local as well as foreign interests which under a weak government might prove stronger than the most urgent national interests.
- (3) The nationalistic urge to establish a strong, military control and defence system which frequently calls for economic and, in most cases, political ties with foreign interests.

This may help to explain why it proves to be so much harder to achieve economic independence and why nationalistic reactions and agrarian unrest are still troubling the newly politically independent countries in Southeast Asia. Certainly, economically independent countries also have their economic and agrarian problems to combat, but their solution will remain a domestic affair where the opposition cannot count on the moral and material support of sympathizing foreign interests as frequently is the case in economically dependent countries. Political independence, no doubt, is an indispensable prerequisite for the achievement of economic independence but is in itself no final solution of the economic and social problems of the new states of Southeast Asia.

As a rule a nation's position in international trade is the result of a long process of economic and cultural growth. A dependent economic system, however, is apt to create an artificial world market maturity which has but little relation to the existing stage of development and social consolidation.

In Southeast Asia the village communities were brought into contact with world trade by being linked to the most sensitive commodity markets. No wonder, that the effects of depression, slump and post-war recessions were nowhere felt more keenly than in the villages of Java and on the plantations of Malaya.

Rupert Emerson describes the plight of the dependent countries in the following words: "Once the industrial demand elsewhere slackens as it did at a sickening pace from the beginning of the depression years, the one-sided character of their economic structure becomes desperately apparent and not only the economy but also the government apparatus which derives its revenues from the economy is brought to an abrupt crisis."<sup>4</sup> The sensitiveness to price fluctuations and the ensuing risk of social dissatisfaction and agrarian unrest is directly proportional to the degree of economic dependence. In the colonial past the subsidiary character of the dependent economy determined the trend and volume of economic activities, and trade agreements and exchange regulations were made primarily to serve the interest of the colonial power. The high speed of expansion increased the economic and social problems, especially in the field of agrarian relations, without granting space and time to eliminate their greatest defects: usury and tenant misery. It accelerated the process of disintegration in the village community, where no gainful use was ever made of the enormous reserves of idle manpower, since the necessary structural changes would have been contrary to the economic interests of the colonial power.

These basic features of economic dependence, characteristic of the colonial economy, have become so deeply ingrained in the economic and social system of Southeast Asia that they remained with the new independent states in spite of serious attempts at farsighted planning. It has become evident that even under the most favourable circumstances a transitional period will be needed in order to plan and gradually prepare each country for a sound economic system of its own. Such a transitional period, however, may be of considerable length

<sup>4</sup> Rupert Emerson, *Government and Nationalism in Southeast Asia*, New York, 1942, Part I, Introduction, pp. 12-13.

given the complexity of the task and the persistent opposition of established vested interests, and at best become a period of semi-dependence. It may even become prolonged indefinitely by the implementation of bilateral development programmes which by their very nature may involve long-term financial and technical supervision, whereas multilaterally sponsored development programmes are more likely to speed up the transition to economic independence.

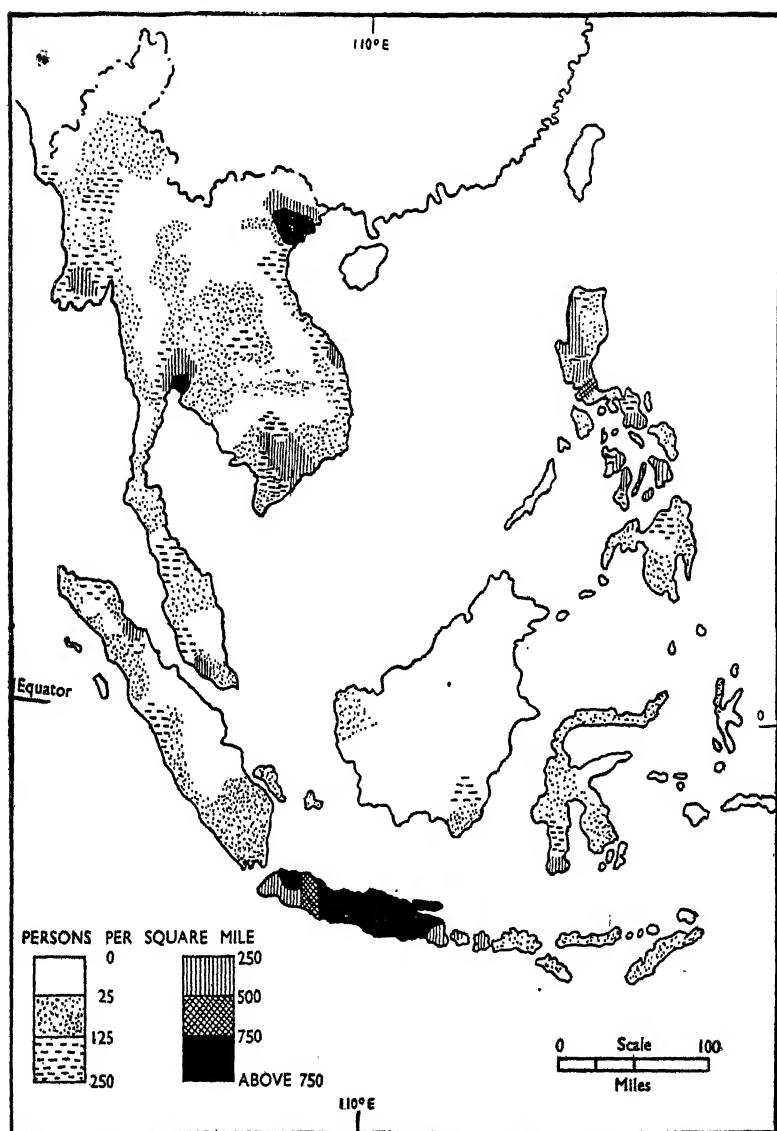
The welfare programmes of the colonial administrations improved conditions all over the area and are being continued and even enlarged by the new states. In spite of a number of undeniably positive results, however, their social effects lag far behind expectations. The peasant is still in constant need of cash and usually tied to an entrepreneur who gives him cash advances on contracts, and supplies and seeds on credit. In fact, the dependence of the entire rural community is repeated in innumerable individual relations between the peasants and the alien or local plantation owners, shopkeepers, and rice dealers.

**POPULATION PRESSURE.** In the fields of health, sanitation, education and public safety Western colonial administration did efficient work all over Southeast Asia. The almost immediate result was a noticeable increase of the average life-span which in the course of time has led to an almost unparalleled population increase.

These efforts are being carried on by the new states and death rates continue to decline. As birth rates remain almost everywhere at their natural peak a steady growth of population has to be expected in all countries of Southeast Asia for decades to come.<sup>5</sup> In spite of various programmes of education in family planning, it would be unrealistic to expect any appreciable decline of the birth rate before the area has reached an advanced stage of industrialization and urbanization. Experience has proved that the fertility rate is likely to decline in industrialized urban areas, while it is more resistant to change in rural communities, thereby contributing toward the maintenance of a widespread association between the

<sup>5</sup> Warren S. Thompson, "Population Prospects for China and South-eastern Asia", in *World Population in Transition (Annals of the American Academy of Political and Social Science)*, Vol. 237, January 1945, pp. 72 ff.

# SOUTHEAST ASIA: POPULATION DENSITY



Based on Fig. IV in *Population Studies*, No. 30, United Nations (Adapted from E. H. G. Dobby, *Southeast Asia*, 5th edition, London, 1956, p. 388.)

extent of the dependence on agriculture and the population pressure on the lands available for agriculture.<sup>6</sup> Until the birth rate shows a tendency to decline the population growth will be determined exclusively by the trend of the death rate.

TABLE I  
PRESSURE OF POPULATION ON LAND,  
SELECTED COUNTRIES, 1954

<i>Country</i>	<i>Population<sup>a</sup></i> (thousands)	<i>Arable land<sup>b</sup></i> (thousands of hectares)	<i>Per capita availability of arable land (hectares)</i>
Burma	19,242	8,569	0.445
Ceylon	8,385	1,512	0.180
India	377,000	149,956	0.397
Indonesia	81,100	11,000	0.135
Japan	88,200	5,095	0.058
Pakistan	80,167	24,297	0.303
Philippines	21,440	5,938	0.276

<sup>a</sup> Mid-year estimates

<sup>b</sup> Later figures were used in cases where 1954 figures were not available.

Source: FAO, *Yearbook of Food and Agricultural Statistics*: 1955, Rome, 1956.

Based on the facts and trends which have determined the population rates since 1900, Thompson estimates that the population of Southeast Asia during the fifty-year period, 1940-90, will increase by about 150 per cent.<sup>7</sup> The seriousness of the situation is clearly manifest already today. Southeast Asia is in the midst of a dynamic development which has forced the economic problem into a race between population increase and expansion of economic productivity. Not even the present low levels of living can be maintained unless the expansion of economic productivity keeps step with the

<sup>6</sup> Conrad Taeuber, "The Organization of Agriculture and Population Change", *Proceedings of the World Population Conference*, 1954, Vol. V, Meeting 22, pp. 587 ff.

<sup>7</sup> Warren S. Thompson, *Population Prospects*, p. 76.

population increase, while any noticeable improvement in the level of living will first of all lower the death rate, especially infant mortality, and thus further accelerate the population growth. This dilemma is typical of densely populated countries where the people live at or near subsistence level within the frame of a dependent economy which neither during its colonial stage nor after the achievement of political independence has been able to provide adequate economic possibilities for the growing population. It must be kept in mind, however, that the population pressure in most parts of Southeast Asia is excessive only in relation to the actual state of economic and agricultural development and is closely connected with inefficient land use, poor farm management, and lack of economic diversification which could make productive use of the abundance of idle manpower.

The population pressure is further aggravated by maldistribution. In general the population density is greatest in the lowlands, along the coasts, on inter-montane plains, and in the big river valleys, while mountain regions and hilly areas are sparsely inhabited.<sup>8</sup> With the growth of population the size of the individual farm decreases rapidly, since only such new land as will not incur great expense is brought under cultivation. Intensification of production alone cannot in the long run compensate the smallness of the holdings and the time is soon reached when the increased rural population can no longer gain full subsistence from the land. Almost everywhere the situation is further aggravated by a continuous concentration of land ownership, as the peasant owners on the minutely fragmented holdings are easy victims of landgrabbers and moneylenders. Excessive fragmentation likewise increases the army of share-croppers, as destitute small holders will frequently lease their land on a share-cropper basis, and will look for additional income as artisans or labourers. In reality this means a further subdivision of the land, as the same land must now support one household completely and another in part.

Theoretically speaking, the right investment policy can help to reduce the population pressure. Capital investments

<sup>8</sup> Karl J. Pelzer, *Pioneer Settlement in the Asiatic Tropics*, New York, 1945, p. 81.

in land reclamation, scientific soil management and construction of irrigation works, rather than investments in better transportation and marketing facilities, can promote the establishment of new settlements in formerly non-arable areas and, thereby, improve the population pattern.<sup>9</sup> Experience has proved, however, that the Asian peasant is reluctant to settle on new land and that internal migration, in spite of remarkable settlement schemes, has not resulted in a noticeable relief in the pressure areas. Considerable institutional efforts will be needed in order to overcome the inertia of the peasant and stimulate organized internal migration in those countries where large, not fully cultivated areas are available.

It is one of the tragic features of a dependent economy that well-intentioned welfare policy has actually created the present critical situation. It saved and prolonged the lives of millions but neglected to provide additional opportunities for the increasing population, and so disturbed the natural equilibrium between population and production.

**MECHANIZATION OF AGRICULTURE.** Before World War II human labour in agriculture could compete successfully not only with the tractor but, in some countries, even with animal labour. The price of human labour was so cheap that motorized equipment was, generally, unprofitable for the landlord, so that the share-cropper family with one or two working animals maintained a more or less uncontested monopoly. Extensive mechanization was found only within the processing industries which were in close contact with the world market and mostly financed by foreigners.

Since the thirties, and increasingly more so after the war, modern machinery factories in the industrial centres of the world are turning out a steadily increasing variety of mechanical equipment especially designed for large-scale operations in tropical agriculture. Rice-field tractors for use on soggy ground, self-propelled harvester threshers, and different tractors for every cane-growing operation are but a few examples of the new technical inventions which are being introduced

<sup>9</sup> Egbert de Vries and Oscar Zaglitz, "Capital Investment and Its Effects on Agricultural Production and Demand for Agricultural Products", in *Proceedings of the World Population Conference, 1954*, Vol. V, Meeting 22, pp. 601 ff.

in Southeast Asia at a time when almost the entire area is marked by excess population and shortage of productive opportunities. In a number of places the labour-saving effect of new machinery has proved so great that cost calculations on larger farms are no longer in favour of human labour especially when taking into consideration that international labour regulations prevent, or at least render more difficult, the traditional exploitation.

The introduction of relatively large engine-powered agricultural machinery, however, has proved economically successful only in areas where concentrated power is used on relatively confined spots and where, therefore, servicing, maintenance and repair can be assured by centrally controlled and supervised workshops. In those areas where low power, spread over wide areas, is needed, as is the case in most tropical regions, human labour and animal power are economically superior. In spite of the spectacular advance of power mechanization, about 85 per cent of the world's total crop is still farmed with small hand- and animal-powered implements. Recently, small one-axle-driven power devices have appeared on the world market and have found large response in certain Asian countries, e.g., Japan. It is questionable, however, whether they can compete successfully with the steadily improved hand- and animal-powered implements.

Experience has disproved the general assumption that mechanized agriculture can be adjusted more easily to periods of depression. Engine-powered equipment undoubtedly increases the returns under favourable market trends ; in times of depression, however, the farms with lower production costs and less capital investment have shown greater capacity for resistance. Large-scale mechanization, however, is not always introduced because of economic considerations alone. In the Philippines, for example, large agricultural enterprises in areas of latent agrarian unrest mechanized their production in order to become as independent as possible of human labour and avoid the economic impact of labour and tenant legislations.

The increasing mechanization of big farm enterprises will, no doubt, aggravate the effects of overpopulation in the socially distressed areas of Southeast Asia, where already the



colonial system had confined the people's participation in production to the labour sector of the economy. The large-scale introduction of labour-saving equipment will result in a dangerous displacement of large parts of the farming population for whom no alternative employment possibilities exist within the framework of a dependent economy where diversification by industrialization advances at a very slow pace.

Mechanization of agriculture, however, is bound to continue in the years to come, and the danger exists that large capital investments will reduce labour participation and thus cause a gross structural unemployment of farm labour with a subsequent dislocation of thousands of tenant families. Political independence alone is not enough to mitigate the economic and social ill-effects of such development, and the forced separation from the land, often the burial place of their ancestors, might bring even the most conservative peasants dangerously near to attempting the last and decisive step against the existing economic order.

The mechanization of agriculture in Southeast Asia, however, would lead to an improved level of living based on increased production, *if* it were to be controlled and combined with a progressive diversification of the economy, which would alleviate the problem of structural unemployment by providing alternative opportunities for the excess rural population. Then, and only then, would mechanization become a stepping-stone to a sound social and economic development.

#### TYPICAL ECONOMIC AND SOCIAL FEATURES OF DEPENDENT ECONOMIES

A careful study of agrarian conditions in Southeast Asia reveals certain features and trends which are typical of the economic and social pattern in economically dependent countries and which represent a similarity which cannot be ignored. Excess population, concentration of land ownership, share-cropping, urgent credit needs, usury, indebtedness, and the general low level of agricultural methods are among the features most frequently encountered. They are all inter-related and interacting, and history has proved more than once that they cannot be relieved by partial solutions. In

the pages below we will analyze a few of the most conspicuous of these features, some of which are deeply rooted in the area, and will discuss the integrated approach to the solution of the economic and social problems involved.

THE CREDIT PROBLEM AND ITS EFFECTS. It would be an over-simplification to argue that the colonial rule alone has been responsible for the entire complex of social and economic deficiencies in the countries of Southeast Asia. It cannot be denied, however, that the transition from subsistence farming to commercial agriculture, the withering away of local handicrafts under the competition of better and cheaper imported goods, and the subsequent disintegration of the village economy are the main factors responsible for the urge for and the shortage of money and all that goes with it. The colonial rule abolished the subsistence-and-barter economy and introduced instead money as means of exchange. It did not provide, however, the needed cash resources and reasonable credit facilities for the bulk of the people, and very soon moneylenders and middlemen filled this gap in the new economic system, at their own profitable terms. The peasants, who were unaccustomed to handle money, did not realize the impact of the usurious rates of interest and were soon caught in the vicious circle of hopeless indebtedness and, consequently, increased demand for additional credit.

The speedy establishment of the colonial economic system entailed a rapid expansion of the cultivated area which was based on the easy transferability of the land. The small peasant owner became exposed to an economic pressure which, in most cases, he was unable to resist, as no adequate credit institutions were available to lend him the considerable capital needed for the expansion of his production. His only means of obtaining the capital advance was to place his land as security for the loan. Almost everywhere the result was a large-scale transfer of small holdings to commercialized agricultural enterprises, partly owned by alien non-agriculturists, and a large number of peasant owners became tenants on their own land with capital provided by the landlord. The rate of expansion was retarded considerably only in those areas where legal conditions limited the transferability of land. The withdrawal of the colonial powers did not alleviate the

severity of the credit problem and it will remain with the new states until reasonable credit facilities have been made available in adequate relation to the expansion and intensification of agriculture.

The unfortunate influence of the credit problem ranges from the sowing of the crop to the marketing of the produce. It reaches every aspect of individual and public life. It degrades human labour and thus hinders the normal functioning of political institutions, as indebted and dependent peasants are prevented from acting as citizens and making use of the rights granted them by legislation. It is even responsible for the peasants' improvidence and lack of capacity to economize even if the opportunity should arise. Carl L. Alsberg has described this psychological deficiency in the following words: "Saving means present sacrifice and foregoing the satisfaction of a want or need with the expectation, thereby, of satisfying a need in the future. . . . the peasant and his family who are never quite full fed hardly can be expected to lay by for a rainy day when by some good fortune they find themselves in the possession of a few cents."<sup>10</sup>

The permanent bondage to the moneylender turns the small holder into a tenant and the tenant into a landless farm labourer. Deprived of any bargaining power in the marketing of his produce and frustrated by his social degradation, the indebted farmer has no incentives and becomes indifferent to any improvements on his land. The landlord, on the other side, acts frequently as moneylender, and, if this is his main source of income, he is likely to calculate the rentability of his estate in terms of interests due from his tenants rather than in terms of agricultural productivity and, therefore, stops being an active agriculturist interested in improving his land. The shortage of reasonable credit which turns the cultivator into a serf and the landlord into a moneylender—neither of whom are interested in improving the land—can be considered one of the main reasons for the backward state of agricultural cultivation in Southeast Asia.

The continuous lack of credit also blocks the way for a favourable change in the situation and paralyzes from the

<sup>10</sup> Carl L. Alsberg, *Land Utilization Investigations and Their Bearing in International Relations*, New York, 1933, p. 19.

very beginning any well-meant government intervention in favour of the peasants. It stabilizes the bond between peasant cultivator and middleman, so that government-owned or -controlled institutions, as for example rice mills,<sup>11</sup> or attempts at establishing an efficient marketing organization have but little chance of success.

The lack of adequate credit facilities has not only an economic and social but often also a racial aspect. In many countries of the area the middlemen, moneylenders, shopkeepers and traders are mostly Chinese and Indians. Though they often work under cover, they still dominate the marketing and processing of the peasants' crop and partly finance agricultural production. For the rural population the middleman and moneylender has become the representative of a hated economic system. His frequently doubtful activities and the high prices of his services enrage the peasants, and as he, often, belongs to a racial minority, the general dissatisfaction finds its primary expression in racial tension. Special legislations have been passed to exclude the foreign middleman from certain fields of commercial activity. This purely legal approach, however, has had only a limited effect, since none of the government-controlled institutions are strong enough to take over his useful functions, and, therefore, he remains the immediate enemy, easier and less risky to attack than the politically powerful landlord. Political propaganda uses him as a scapegoat in order to divert the peasants' claim for adequate agricultural services, though his mere existence is a function of the dependent economic system as such. He would simply have no basis for existence, if reasonable credit and appropriate guidance for its application were available.

In the course of generations the existence of this class of racially different middlemen has created a racial intolerance, previously unknown among the traditionally hospitable Oriental peoples, and agrarian unrest has assumed an aspect of racial warfare which endangers political understanding all over the area.

The economic and social climate of the colonial economy provided but little opportunity for the development of co-

<sup>11</sup> V. D. Wickizer and M. K. Bennett, *The Rice Economy of Monsoon Asia*, Palo Alto Calif., 1941, p. 169.

operative institutions. This fact has not changed substantially in the politically independent states of Southeast Asia in spite of some governments' efforts to expand their realm of activities. Cooperative organizations today are still hampered by inadequate capital and smallness of operations, and only seldom reach the level of most urgent need, i.e., that of the deeply indebted tenant cultivator who has neither security to pledge nor the economic capacity to accumulate savings for the refunding of loans. Most successful to date has been the combination of marketing and credit societies, which provide short-term loans, market the produce of their members, and from the returns of the marketing transactions regulate their credit accounts, thus simultaneously carrying out an economic supervision of the peasant household. Even the most successful cooperatives, however, are only seldom able to free the tenant completely from the grip of the moneylender, landlord or shopkeeper who offers more ample and conveniently timed credit, especially for the traditional family celebrations.

This proves again that the credit problem cannot be solved in isolation and that the principle of cooperative organization can be applied effectively only as an integral part of a thorough economic reconstruction programme.

LOW LEVELS OF AGRICULTURAL CULTIVATION. Southeast Asia has been an agricultural region since time immemorial, and remains of archaic but effective irrigation systems can still be found in many places. Shifting cultivation is still encountered in the remote, hilly regions, while subsistence farming and commercial agriculture is practised in the fertile lowlands and central plains. With the exception of the large, commercialized agricultural centres, cultivation methods are very primitive and most of the work is still done by hand. In many places a continuous misuse of the land has depleted the soil, and in some areas the shifting cultivation has resulted in deforestation and over-grazing. In fact, the pattern of cultivation almost all over Southeast Asia calls for improvement, and much needs to be done before the best possible relation is achieved between crop and quality of soil.

For almost two generations the colonial administrations attempted to introduce Western educational methods such as extension services, agricultural colleges, training camps, and

exhibitions, in a serious effort to raise the general level of agricultural cultivation. With the exception, however, of outstanding success on certain model farms and in selected villages hardly any progress was achieved. In fact, it has been confirmed by investigations that even the most enthusiastic graduates from the agricultural colleges were able to apply their acquired knowledge only to a very limited extent and upon return to their villages very soon reverted to the customary methods of cultivation. The failure of agricultural education and training frequently has been blamed on the stubbornness, lack of adaptability, and passive resistance of the peasants. It was never fully understood that the problem of education is an integral part of the social and economic problem and that not "oriental mentality" but the low valuation and low returns of agricultural labour and, consequently, its apparent futility are among the main reasons for the fatalistic attitude of the peasants. Crop rotation, better selection and breeding of seeds, control of plant diseases and insect pests, etc. will not arouse the interest of the cultivator before he has reached a stage of social emancipation where he can see the benefit of a change.

This is not meant to discourage the continuation of educational efforts in the young states of Southeast Asia, but it may help to clarify the bewildering failure of well-intentioned educational programmes and add to the understanding of the fact that agricultural education cannot be applied in a social vacuum but by necessity will have to be integrated into a programme of social and agrarian reconstruction.

PROBLEMS OF SOCIAL STRATIFICATION. Without exception, society all over Southeast Asia is still marked by a complete lack of social stratification. A middle class is virtually non-existent, and at least 75 per cent of the population is still tilling the soil as tenants, agricultural labourers, or indebted small owners. Lack of sufficient statistical material on the distribution of income makes exact statements impossible, but considering the situation in general, it may be safe to state that about 80 per cent of the people in Southeast Asia are still underprivileged. They may not actually be starving, but they live undoubtedly near the borderline of starvation with insufficient clothing, inferior housing, and have neither

physical nor moral resistance against the effects of the periodically recurring world market fluctuations which shake the dependent economy of their countries. Apart from individual exceptions, the vast majority of the people are still excluded—not by law but by their low economic and social status—from any positions in society which involve responsibility, supervision, or leadership.

During the colonial rule economic management and control were in foreign hands and, consequently, the distribution of income was based on a racial stratification of society. Western influence was predominant in banking, shipping, mining, and plantations, while Chinese interests largely controlled the trade and the processing industries. (The great Indian share in the colonial economy of Burma and the strong position of the Spanish-Filipino upper class in the Philippines are exceptions to the general pattern.) The racial stratification assured the foreigners a level of living far above that of the local population and often much higher than the corresponding level in their home countries. With the exception of a small upper class, supported by the colonial power, the indigenous society remained the vast undifferentiated foundation of the economic structure of the country. Rupert Emerson has stated in an analysis of conditions in the colonies of Malaya and the Netherlands East Indies that there was nothing in official policy to prevent the outstanding native from raising himself in the economic scale as the Chinese has done; but he could count on very little, if any, official support in his fight against the terrific odds of an almost complete lack of capital and the inevitable opposition of large and deeply entrenched vested interests with huge capital resources behind them.<sup>12</sup> The social stratification of the colonial society was not deliberately prevented by laws or discriminating regulations, but was simply inhibited by the actual mechanism of the dependent economy as such.

With the achievement of independence the political and official command positions of the colonial administration were taken over by the leading personalities of the national movements, mostly belonging to the local ruling class, while a considerable number of important economic positions in

<sup>12</sup> Emerson, *Malaysia*, p. 486.

agriculture, banking and industry have remained in foreign hands. It is obvious that the change in the official command positions could not influence the social structure of the countries. In fact, it has actually increased the social distances and, consequently, the latent tensions within a social system which is not yet balanced by a broad and economically self-sufficient middle class.

HEALTH AND NUTRITION. The vast health and sanitation programme of the colonial administrations in Southeast Asia was concentrated on improving drinking water, fighting epidemics, and conducting efficient anti-malaria campaigns. It was supplemented by a general welfare programme to prevent or diminish the effects of death-dealing famines, floods and droughts ; the rapidly decreasing death rate proved its success. As early as 1937, however, reports to the Health Organization of the League of Nations indicated that continuous progress was hardly to be expected as "the problem now is largely bound up with economic conditions".<sup>13</sup> The governments of the new states, now assisted by the World Health Organization of the United Nations, have intensified the health programmes, and though life expectancy is still increasing, the general health conditions are poor in most parts of the area.

The overall problem is food, and chronic malnutrition still marks the bulk of the people. Lack of vigour, vitality, and initiative, the generally cited shortcomings of Asian labour, are largely due to inadequate nutrition. In most parts of Southeast Asia a sufficient diet containing an adequate amount of proteins is far beyond the buying capacity of the rural population. Modern medicine and health policy cannot counteract the deficiencies inherent in the economic system, and any further improvement of health conditions, working energy and, thereby, of economic productivity will be determined by the progress made in the general economic and social reconstruction of the countries in the area.

<sup>13</sup> League of Nations, Health Organization, "Intergovernmental Conference of Far Eastern Countries on Rural Hygiene", held in Badoeng (Java), Aug. 3-13, 1937. Report (Geneva 1937), p. 67, Recommendation No. 1.



## THE WAYS OF WESTERN POLITICAL PENETRATION

The economic and social systems of the countries in South-east Asia have been greatly influenced by the mercantile ideology of the seventeenth century. Commercial competition forced the East Indian companies to interfere in the political life of the countries in Asia, and alliances with local rulers were, generally, the first step to a colonial administration. When the Western governments took over the decaying trading companies, commercial influence necessarily changed to centralized political control.

Western penetration developed two types of administration which were applied separately or combined according to the given circumstances. The Trading Companies which did not have the technical means for direct control of the vast and densely populated areas established their influence by a system of "indirect rule" through the local chiefs and princes whom they supported in conflicts with neighbouring rivals and gradually made dependent on Western advice and support. Occasional presents and contributions, often combined with threats, generally sufficed to keep these local rulers under control and remind them of their obligation to give the trading companies full freedom for economic exploitation of their territories.

With the end of the mercantile expansion and the coming of the industrial age in the latter half of the nineteenth century, however, a change in the European attitude towards colonial areas became manifest. The form of indirect rule could no longer meet the demands of Western capitalism, and the rapidly developing manufacturing industries demanded the actual conquest and intensive development of the colonies. At the same time the spirit of liberalism called for the enlightenment of the people in the colonies and the introduction of what later in the Netherlands East Indies was called an "ethical policy". Economic considerations supported by liberal and humanitarian ideas thus paved the way for a more intensive Western penetration by "direct rule".<sup>14</sup>

The rapid expansion of the colonial empires, however,

<sup>14</sup> Emerson, *Malaysia*, pp. 3-4 ff., gives an excellent analysis of direct and indirect rule.

made direct rule too costly and soon a combination of direct and indirect rule evolved as the most efficient form of colonial administration. In fact, it became evident that in the course of intensified colonization and administration the use of indirect rule was of great psychological value, as it minimized political friction by invoking a feeling of voluntary political cooperation in the ruling class, especially the landlord class.<sup>15</sup>

Western penetration deeply affected the life of the rural population. The progressing commercialization of agriculture created a land problem often even in areas with an abundance of waste land. It increased the concentration of land ownership at the cost of the small peasant owner and thus limited participation in the benefits of the new economic system to a relatively small group of indigenous landlords and estate owners. It was only logical, therefore, that an economic partnership developed gradually between this landed group and the Western interests whose economic strength to a very large extent was based on the estate economy. In the course of time, however, mounting agrarian dissatisfaction with the existing tenure system and an ever increasing national opposition to the colonial rule turned this economic partnership into a political alliance, which replaced the cooperation with the local princes who were gradually losing their political influence all over the area. This development established the landlords as the political agents of the colonial administrations and governments, and it was only natural that the councils under their control became the ultimate and most sophisticated form of indirect rule. It was a politically and economically highly effective arrangement but in the long run it could not prevent the mounting influence of the national movements and actually accentuated the political crisis, since the dissatisfied peasants inevitably came to identify colonial rule with landlord rule.

<sup>15</sup> Emerson, *Malaysia*, op. cit., p. 8: "... when imperialism was forced to find moral justification in a world whose conscience had been temporarily aroused, it came to its glorification . . . . No longer a stopgap, indirect rule could lay claim to being the instrument by which a humbled Europe could lead the 'backward' peoples to self-government, preserving the best of the old and integrating it with the best of the new. Colonies were in bad odor, but indirect rule could be invoked as itself a kind of mandate on behalf of humanity and of the peoples under Europe's generous tutelage."

Today, fifteen years after the end of World War II, Western powers no longer police Southeast Asia as was practically still the case when the first edition of this book was published. They no longer have to enforce a social order contradictory to their own ideology, and the softer strings of economic dependence have replaced the bonds of colonial rule. In large parts of Southeast Asia, however, Western economic interests are still dominant and economic cooperation between Western investors and the ruling landlord class is still a powerful factor in the preservation of the existing economic and social order. Though Western penetration cannot be considered the only cause of the defective agrarian structure in Southeast Asia, it has contributed to its stabilization and to the continued poverty and misery of the rural population. It is, therefore, to a large extent also responsible for the latent agrarian tension which entails the risk of political interventions from abroad, either summoned by an intimidated landlord class or by the distressed peasants and landless labourers.

The shortcomings, failures and wrongs of the past have thus been deeply ingrained, and for a considerably long time to come the young nations in Southeast Asia will have to fight against all economic odds for their emancipation in every field of society.

Western concepts still play an essential role in Southeast Asia through the various kinds of development programmes and cultural missions which are conducted by Western experts. Western concepts, however, may lose their intended beneficial effect, if they are merely transferred in substance and not adapted to the structure of the society they are supposed to serve. The concept of full ownership of the land, which, for example, has been the road to progress under certain given conditions in the West, might prove to be a blind alley in an agricultural and social environment which is not ready for its application. This is but one of the many problems confronting Western advisers today, but in every instance it must be kept clearly in mind that unwise insistence upon Western concepts and values without antecedent economic and social preparation might prove to be almost as dangerous to the development in Southeast Asia as was the colonial economy of the past.

## THE WAY OF NEW ECONOMIC AND SOCIAL ORGANIZATION

The countries of Southeast Asia have now more or less recovered from the devastations of war and occupation, and are seriously trying to adjust their traditional ways of life and work to economic progress. They realize that the village community must be the cultural stronghold in their struggle for economic and social emancipation, but they are faced with the problem that the villages are still marked by the rigid agrarian structure of the past and the open gap between the ruling families and the masses of exploited and destitute peasants.

The overall problem, therefore, is to find the right ways and means for the implementation of agrarian reform measures which will bring about the economic and social reorganization of the villages and dissolve the landlord-tenant and money-lender-peasant relationships, which are the remaining strongholds of the colonial system and which have proved inimical to economic development.<sup>16</sup>

Agrarian reform measures involve conflicts of interest and fundamental changes in the economic and political balance of power, but every nation in Southeast Asia will have to face these conflicts, since no substantial progress can be achieved without a gradual disintegration of the traditional order. To minimize the open conflicts of interest, however, the various institutional policies will have to be coordinated and integrated. Credit, marketing, rural industrialization, education and communication must be combined into one streamlined agricultural programme with the one purpose of strengthening, absolutely and relatively, the bargaining power and social position of the peasants and thus, automatically, weakening the entrenched vested interests in the village. Land reform measures will then have a fair chance of a relatively fast implementation, since the peasant cultivator will be in a better position to insist on the rights granted him by law.

The frequent transfer of foreign-held economic key positions to individual citizens or institutions is nothing but a tangible demonstration of political independence and cannot bring

<sup>16</sup> Gunnar Myrdal, *Economic Theory and Underdeveloped Regions*, London, 1957, p. 60.

about an adequate change in the agrarian structure. It is merely the nationalization of the colonial concept with all its unfortunate economic and social aspects and will inevitably strengthen the position and wealth of the already powerful groups and thus delay, if not counteract, any attempt to change the income distribution in the village.

Many of the community development programmes may have the same negative effect, if they are conducted by the ruling families, who usually are the literate and, therefore, the most active group within the community. Almost everywhere, however, this very group holds the full economic and political power in the village, and, consequently, has a strong vested interest in the preservation of the existing social order and income distribution.

It is, therefore, a precondition for progress that the economic and political influence of this group be reduced considerably. To this end government control of the strategic economic positions in the villages will be necessary. Management of cooperative societies, especially of credit institutions, power plants, and irrigation installations should not be held by the traditional village authorities in the initial stage and should not be allowed to develop into permanent positions of economic command. It is true that government control may entail burdensome bureaucratic practices, but it is easier and less dangerous to fight bureaucracy than re-established powerful economic and social positions.

The concept of private ownership will have to be adjusted to the urgent needs of economic progress. In Southeast Asia, as in all areas emerging from feudalism and oppression, the peasant has a deep emotional urge to own the land he tills, and there is little doubt that this very urge actually paved the way for the national movements. To recognize this fact, however, should not imply that unrestricted freehold is the only adequate solution of the agrarian problem in Southeast Asia, and that it will remain the peasants' creed and hope throughout the various stages of economic and social development. The history of tenure systems proves that, at one time or another, all systems have been adequate or inadequate under certain conditions and that good and bad farming or progressive and regressive agriculture have been encountered under

almost every conceivable form of land tenure.<sup>17</sup> No tenure system has ever existed, nor will it exist, which under all possible circumstances infallibly guarantees promotion of agricultural efficiency and economic and social progress; consequently no agrarian concept can be imagined which through the whole course of history will remain the ideal goal of all farmers in the world.<sup>18</sup>

Flexibility is not only the necessary prerequisite for a sound system of land tenure but it must also be the guiding principle for the institutional planner. Historical, sociological and psychological experiences have indicated that the legalistic approach to tenure problems is static by necessity and has lost its weight and validity. Under the given circumstances of today a more functional approach is called for. It will have to be focused on, but not restricted to, agricultural aspects, such as better land use, better farm management, and greater efficiency which will provide a higher living standard for the cultivator, increase the productive energies of the people and release agricultural labour for the development of industries. The tenure type will have to be selected after a most careful consideration of the decisive aspects of environment, of the social and cultural conditions, and of the needs of development.

Of equal importance is the functional approach to the community aspect, since community life to a very high degree determines not only the cultural level but also the social standing of the peasant. Economic and agricultural development is but another side of social development. Tarlok Singh states: "Both aspects have to be seen together, not only at the village level but right through the entire social order. The reconstruction of the village involves . . . a view of rural society and its relationship at every point with the national economy as a whole."<sup>19</sup>

<sup>17</sup> *Inter-relationship between Agrarian Reform and Agricultural Development*, an FAO Land Tenure Study, prepared by E. H. Jacoby, Food and Agriculture Organization of the United Nations, Rome, 1953.

<sup>18</sup> On the new Zuiderzee polders property-conscious Dutch farmers have been settled successfully under long-term leasehold; similar arrangements are the basis for the settlement of Singalese peasants in the Galoya area. Adequate extension work, however, is the prerequisite for the success of any new institutional arrangements.

<sup>19</sup> Tarlok Singh, "The Cooperative Village", *Economic Weekly*, Republic Day, India, 1958.

At the present stage of economic development the functional approach means that the operational unit and not the individual farm must be the foundation for the planning of land use, and, if necessary, for production itself. The tenure type of the individual farms within the operational unit—be it ownership, long-term leasehold, tenancy etc.—will depend on legal, historical, cultural and even incidental factors, and is in itself of no decisive importance. The co-existence of various tenure types is desirable and even necessary, since it provides the flexibility needed for a well-balanced agrarian system. It is the right and privilege of the individual peasant to choose the tenure type he prefers, but for the sake of efficiency he will have to accept certain restrictions in order to prevent subdivision of his land and agree to certain types of cooperation, as for example cooperative village management.

The same detached and flexible approach must be applied to the various types of group operations in agricultural production and particularly to the collective farm unit. The concept of ownership is about to lose its economic significance in areas where minute, sub-marginal holdings provide no more than a living level close to starvation for the peasant owner and his family. The widely used slogan that ownership will change land into gold becomes tinged with irony in wide areas of Southeast Asia where gainful farming is made impossible by the almost inconceivably small scale of operations, the shortage of credit, and the almost complete lack of extension and training facilities. The whole economic and social environment paralyzes additional efforts which anyway would not pay.

The only positive aspect in such areas is the time-honoured institution of mutual aid, which still today is a vital factor in the life of the peasant and time and again has helped him to overcome the frequently recurring periods of emergency. The decisive effort, therefore, should be concentrated on making him realize that his everyday life is a permanent state of emergency and thus transforming the mutual aid concept into an understanding of the benefits of cooperative activities. When first this basic change in mentality has been achieved and the cooperative ideology established the generally overestimated difficulties in introducing technical "know-how" will be overcome relatively fast. The real problem

is: to change the cultivator into an active partner in important decision-making on all levels of farm and business management and thus assure his participation in development planning. This is most essential, since a development programme is more a programme of the development of the people than of the area. In order to achieve this goal under Asian conditions, no better approach has been devised than that of cooperative organizations.

There is a fair chance at least that cooperative management of under-sized farm units will increase the scale of operations and, thereby, improve the productivity of farming. It might also bring about a favourable change in the land use pattern by promoting the large-scale cultivation of labour intensive crops and thus help to reduce agricultural under-employment, so frequently encountered in areas of urgent need. Collective farming has had this effect in Mexico, where the *eljidos* in Laguna successfully introduced the cultivation of cotton in lieu of wheat by an approach to the whole problem of land utilization different to the one of the previous land owners. The most far-reaching effect, however, of any cooperative arrangement will be a more efficient employment of labour and, above all, the contemporary organization of adequate institutional services, particularly extension, which otherwise might not have been achieved during the lifetime of the present or coming generation. A recent Indian report on cooperative farming,<sup>20</sup> based on the investigations of thirty-four cooperative farming societies in eight states, concludes that the establishment of such societies has facilitated the adoption of improved techniques and practices and provided additional employment by the introduction of labour intensive methods.

But cooperative village management in the sphere of agricultural production will be of little avail unless it can separate itself distinctly from the vested interests in the village community and establish an identity of its own. Once this has been achieved, cooperative and collective farming arrangements might be a short-cut in some overpopulated areas of Southeast Asia to agricultural progress, and become the main factor determining further success or failure.

<sup>20</sup> *Report of the Working Group on Cooperative Farming*, Government of India, December 1959.



A clear distinction will have to be made between the ideology and scope of Asian and Western cooperatives, first of all with regard to their place within the country and their role in the development of its economy. In an atmosphere of economic progress and political stability Western cooperatives expanded and were able to protect and promote the interests of their members in the field of external cooperation (credit, marketing and processing). Cooperatives in Southeast Asia, on the other hand, must concentrate their activities on production as such and, in addition, continue to strive for a radical change in the existing economic and social balance. In fact, they stand no chance of success until such change has been effected. They, therefore, cannot apply the Western approach of unrestricted voluntarism and, although the decision of the individual peasant to join must be voluntary, the cooperatives will be in need of adequate government capital and moral support from the very beginning. At the present stage of development in Southeast Asia non-interference by the government may prove to be fatal for the continued existence of the cooperative organizations.

In the course of a public discussion on government support to cooperatives in India, D. R. Gadgil has stated: "It (the opposition) safely ignores or deliberately shuts its eyes to the universal lesson, especially emphasized by experience in India, that the unaided activities of the poor and the weak can make no advance against the heavily entrenched position of the trader-moneylender classes. The plea for small uneconomic single village units and for denying financial aid to primaries of poor peasants in a country where all the largest industrial units have been established through and maintained by sacrifices imposed on the consumers and have been given all kinds of state aid including concessional finance, appears no more than an unsuccessful attempt at concealing the real intentions of those who want to maintain the status quo."<sup>21</sup>

Government-supported cooperative organizations will also prove to be of decisive importance in the field of rural industrialization which faces a great variety of problems such as

<sup>21</sup> D. R. Gadgil, "Gramdan—Implications and Possibilities", *Indian Journal of Agricultural Economics*, Vol. XII, No. 4, October-December 1957.

lack of capital and skills, and difficulties in organization and marketing. Government support will enable them to compete successfully even with giant factory enterprises which farm out part of their production to decentralized rural units.

Of equal importance for the economic and social reconstruction of distressed areas is the resettlement of the landless labourers and occupants of under-sized holdings. It has to be recalled, however, that resettlement can never be a substitute for agrarian reform, but that both measures must be coordinated in a country-wide programme of reconstruction to achieve the desired result. While the new settlements must be provided from the very beginning with the best possible institutional services and arrangements, the sites vacated by the resettlers must be acquired by the proper authorities for the purpose of enlarging the remaining holdings to a viable size. Resettlement alone without such agrarian reform measures in the vacated area will inevitably encourage other waves of migrants to the new villages, who will be accompanied by traders and money-lenders. Within a relatively short period, the new communities will be suffering from institutional deficiencies hardly different from those which were to be abolished by the resettlement scheme.<sup>22</sup>

At the present stage of development it is impossible to outline a final concept for the economic and social reorganization of the villages in Southeast Asia. Missionaries of various political, economic and social creeds—generally well-intentioned though often prejudiced—are offering anything from modest reforms to ready-made models and ambitious schemes. They are all being tried—and are failing in due course. This has proved to be a source of great danger, since frustration and disappointment of a distressed farming population foster stagnation and may lead to the denial of democracy.

The military dictatorships recently established in a number of Southeast Asian countries are no solution but rather a desperate flight from reality and an administrative compromise in an emergency situation. In countries where powerful local groups have substituted the colonial rulers, the people

<sup>22</sup> D. R. Gadgil, "Integration of Land Settlement Policies into the Economic and Social Development of Countries", *FAO Monthly Bulletin of Agricultural Economics and Statistics*, 1959, Vol. VIII, No. 10.

remain indifferent or move towards the left, not because they believe in communism but because communism under the present circumstances seems to be the only alternative to powerful group rule. It is the discrepancy between the ruling and the ruled, between the vested interests and the aspirations of the people which has been responsible for the atmosphere of despair and the collapse of constitutional rule during the last years of the present decade. A cynical observer might even state that the previous "democratic" governments have not been more representative of the real interests of the people than the new military dictatorships. While this conclusion might be right to a certain extent, the fact remains that it was the non-existence of a broad middle class—the basic foundation of a democracy—which led to the constitutional crisis in the new countries in Southeast Asia. A middle class, however, cannot be created by a mere declaration of independence and the adoption of a democratic constitution; it is the final result of a sound, economic and social development, based on progressive institutions.

The recent developments in Southeast Asia have proved again the futility of transferring even the most successful economic and social concepts to an entirely different cultural and economic setting. The new countries in Asia present definite problems of their own which are centred round the very objective of changing the political, economic and social balance in the village. How to attain this objective ought not be a question of principle but exclusively a matter of expediency. The proper way will require determined action but, more than anything else, the utmost flexibility and a spirit of genuine tolerance.

## CHAPTER II

### AGRARIAN UNREST AND THE BEGINNING OF NATIONAL MOVEMENTS

THE national movements in Southeast Asia are deeply rooted in the realities of peasant life. They can be analyzed from different angles and can be related to various factors, but ought not be separated from the basic economic and social conditions.

It has been said that it is a mistake to seek the initial stage of a national idea. In the life of nations, vegetative periods, interrupted by occasional manifestations of awakening national impulses, precede the times of conscious national activity.<sup>1</sup> It might be more fruitful to look for the factors which force nations into periods of consciousness.

In the case of the people of Southeast Asia, these factors were the introduction of Western economic methods, the disintegration of the old village economy, and the disruption of the traditional uniformity of village life. All other experiences in the age-old history of Southeast Asia, brutal and merciless as they were, failed to shatter the citadel of native life. Indeed, they often strengthened it. Conquest and suppression, despotism and religious fanaticism might have shaken the people momentarily, but did not lead them beyond the threshold of national consciousness. Western penetration, however, did so.

It is always misleading to look for the release mechanism by simplifying the historic process, since it is always a plurality, a combination of factors, which leads to the final historic result. In the history of the Western world, the release mechanism was the industrial revolution in the beginning of the nineteenth century. Modern national ideology in Europe arose from it and from "the attitudes and achievements of modern scientific development which made the industrial revolution possible".<sup>2</sup>

<sup>1</sup> Friedrich Meinecke, *Weltbuergerium und Nationalstaat*, Munich and Berlin, 1908, pp. 4 ff.

<sup>2</sup> Rupert Emerson, "An Analysis of Nationalism in Southeast Asia", *Far Eastern Quarterly*, February 1946, pp. 208 ff.

Rupert Emerson concludes that nationalism always appears to involve the notion of man's abilities to change and control both the material and social aspects of his environment. This is right when emphasis is laid exclusively on the factor of change. For, in the case of Southeast Asia and almost the entire Far East, the national idea was conceived by those who suffered the change but, at the same time, understood that others have the capacity of changing and controlling the conditions of existence. They saw how the foreigner had the power to disrupt the village life and, therefore, came to consider that they, themselves, should be capable of introducing a new and more fortunate change.

Developments all over the world prove the importance of basic economic changes and of substantial ideas of progress for the establishment of national movements. The industrial revolution, so essential in the case of Europe, however, did not become the deciding factor for the development of national movements in Southeast Asia.

Only if we abandon the belief that industrial development and nationalism are naturally coordinated can we evaluate rightly the importance of the peasantry as bearer of the national idea in Asia. The role of the industrialized areas is highly overestimated, though, in a number of cases; these areas have supplied the leaders of the national movements.

To speak in the terms of this study and deliberately simplify a complicated historical development, it may be stated that the national idea became a permanent force in Southeast Asia at the moment when the peasants were forced to give up subsistence farming for the cultivation of cash crops or when (as in highly colonized Java) subsistence farming ceased to yield a subsistence. The introduction of a money economy and the withering away of the village as the unit of life accompanied this development and finally established the period of economic dependence.

The first reactions were hardly more than the usual acts of dissatisfaction and desperation, frequently combined with religious fanaticism. They had mostly local colour, and were, in general, determined by regional frictions and conflicts. Naturally, the colonial commanders and administrators saw nothing

more in these disturbances of peace than the usual periodic uprisings.

In the course of time, however, Western penetration aroused more than occasional dissatisfaction. It brought about an economic and spiritual dislocation and a final disturbance of the social and economic equilibrium. It forced the population into a completely new world, with totally different aspects and with rules and laws previously unknown. It eliminated the time-honoured authority of the clan, widened the narrow circle of the village to an extent determined by the convenience of the colonial administration, and superseded the primitive ideas of the peasant people by new sensational experiences.

It can hardly be emphasized too strongly that the emergence of a national movement is primarily an emotional process, though capable of intellectual leadership and interpretation. Its foundation is the emotional experience of the people and their awareness of a common destiny in the present and the future. The social dislocation of the people in Southeast Asia established this consciousness, just as did the industrial revolution in the West.

It would, of course, be misleading to state that the peasants in Southeast Asia began with a revolt against the dependent economy as such. Naturally, they reacted against the most visible effects and conditions of the economic system which determined their lives to a steadily increasing extent. Little by little, they were forced into a common reaction. It was directed against the native landlord, as well as against the foreign plantation; against the Indian moneylender, as well as against the Chinese middleman; but seldom consciously against the authorities. It was stronger and more immediate against the Chinese and Indian partners of the dependent system, who interfered with the life of the peasants more directly than the Western authorities and the Western businessman.<sup>3</sup>

The Western penetration of Southeast Asia, however, also brought about certain developments which proved to be of the utmost importance for the national movements. The

<sup>3</sup> In Burma, the first rebellion against the authorities was the result of the protection granted to the Indians.

dependent economic system needed an educated elite which could furnish reliable clerks and technicians for the growing economic expansion and increased administration. This generally limited group of young people was brought into direct contact with the Western world and its ideas, partly at home and partly by studying abroad. They studied Western nationalism, Western ideologies and theories and acquired a knowledge which enabled them to interpret the political developments in their home countries. They began to understand the mechanism of the Western world and became aware of its weakness during the first World War. Their zealous political nationalism was strengthened by a natural preference for absolute solutions and by their honest disappointment in the discrepancy between the creed and practice of democracy which certainly nowhere was more visible than in the colonial environment. The colonial system itself thus provided the weapons for its opponents.

The national movements in Southeast Asia were strongly influenced by the revolutions in China and India in the twenties and thirties, partly through direct propaganda and partly through intimate contact with the large Indian and Chinese groups in the area who had never lost contact with their home countries. No doubt, some communist influence also existed, but it would surely be an exaggeration to consider the social claims of the national movements, which began as a consequence of the defects of social structure, as the result of communist activities. At the time of the rise of the national movements communist organizations were by no means dominant in any of the Southeast Asian countries, and what influence they had was mainly due to their often expedient representation of general national and social aims. Western education and example, the gap between Western democratic creed and practice, and the great national revolutions in Asia have had far greater influence than communism on the ideology of the national movements.

The national movements in Southeast Asia did not differ fundamentally from those in other parts of Asia. They were all based on a combination of racial and social resentments which can be explained only against the background of economic dependence and were frequently influenced by an urge for

communalism, which greatly influenced the formulation of land policies, as for example in Indonesia.

Awakened race consciousness was a collective reaction against the racial pride of the white man in control of the dependent economies. It was a natural reaction against the social stratification by race which could be maintained only by an openly recognized, or at least silently tolerated, superiority of the white man. Sun Yat Sen in his *San Min Chu I*,<sup>4</sup> describes this psychological point as follows: "Now compare the Europeans and the Asiatics. Formerly the white people, assuming that they alone possessed intelligence and ability, monopolized everything. We Asiatics, since we could not in a moment learn the strong points of the West and the secret of building strong nations, lost heart—not only the Chinese but every Asiatic people." He then pointed out that Japan succeeded because it was able to learn from Europe, though once it was as weak as Annam and Burma are today, and he continued: "Although the races show variations of colours, there are no marked differences in intelligence and ability."

The national reaction differed with the specific psychological and social conditions in the countries of the area. It could take the form of supersensitiveness, as in the more remote Philippine Islands, of very stubborn demonstrations as among the Indian plantation workers in Malaya, of discrimination against national minorities as in Thailand, or of a radical, often aggressive, policy as in China.

In his political programme, Sun Yat Sen emphasized and defended the racial substance of Chinese nationalism.<sup>5</sup> He postulated that the principle of nationalism was equivalent to the "doctrine of the state" and added that this doctrine is applicable in China, but not in the West. (He did not mention the other nations in Asia.) He justified the principle of nationalism with the statement that only "China has been developing a single state out of a single race". This astonishing argument,

<sup>4</sup> Sun Yat Sen, *San Min Chu I, Three Principles of the People*, Shanghai, 1927, p. 15. See also K. M. Panikkar, *The Future of Southeast Asia: an Indian Review*, London, 1943, p. 115. The author points out that the ideas of the Europeans are responsible for the ideas of the Asiatics.

<sup>5</sup> Sun Yat Sen, op. cit., pp. 4-5.



which contradicted the historical fact that the Chinese people never have stressed their racial identity in competition and conflict with other equal or superior races but rather their cultural unity,<sup>6</sup> was based on the awakening race consciousness fostered by the extraordinary race pride of the white man in China. Like many of his compatriots Sun Yat Sen also became intensely aware of belonging to the Chinese race and expressed this feeling as Chinese solidarity.<sup>7</sup> This interpretation of Sun Yat Sen's theory is more convincing than the theory itself and is of actual importance for the psychological understanding of the people in Southeast Asia. The development of race consciousness was the last line of defence for the colonial people who had become aware of the process of disintegration and had started to understand the inferiority of their dependent status.

The rest of mankind is the carving knife and the serving dish while we are the fish and the meat . . . . Our position now is extremely perilous; if we do not earnestly promote nationalism and weld together our four hundred millions into a strong nation, we face a tragedy—the loss of our country and the destruction of our race . . . . From now on, the Chinese people will be feeling the pressure simultaneously of natural, political and economic forces. So you see what a critical time it is for our race.<sup>8</sup>

The racial ideology of Sun Yat Sen became the psychological basis for the formation of the national movements in Southeast Asia. Everywhere growing racial consciousness succeeded

\* Paul Myron Anthony Linebarger, *The Political Doctrine of Sun Yat Sen, an Exposition of the San Min Chu I*, Baltimore, 1937, p. 61.

<sup>7</sup> Linebarger (*ibid.*, pp. 61, 67) asserts that Sun Yat Sen's nationalism may represent a narrowing of the Confucian conception of humanity, for which he substitutes the modern Chinese race. See also Paul Myron Linebarger, *The Life and Principles of Sun Chung-shan*, p. 102. According to an anecdote, Sun Yat Sen encountered race hatred for the first time in 1880 in Ewa, Hawaii, where he just had arrived from China. A Westerner whom he met on the road called him "damned Chinaman". A boy of only fourteen years, he was deeply impressed and always remembered this incident, which was certainly exceedingly disagreeable, but typical of the colonial atmosphere, especially at that time.

<sup>8</sup> Sun Yat Sen, *op. cit.*, pp. 12, 32.

the wish for assimilation.<sup>9</sup> The submissive attitude of the Asian intellectual towards Western philosophy and education was transformed into an urge to use the Western world as an arsenal of the spiritual and technical weapons needed in the battle for national liberty. This very important change in attitude coincided with the advance of Western economic penetration and could be encountered wherever a combined political and economic pressure was perceived by the dependent people.

Misery and poverty have always prevailed in the East and are not necessarily a product of Western penetration. But it became the lot of Western influence to open the eyes of the people to the important factors deciding the material life of man. The national movements were born when the people began to realize that their own life was misery and when they related this fact to the presence of foreigners in their country.

Sun Yat Sen has given a vivid interpretation<sup>10</sup> of the economic background of Chinese nationalism which holds equally true for the national movements all over Southeast Asia. Foreseeing the disaster which threatened China<sup>11</sup> his greatest concern was economic oppression, "the looting of China by the unfair economic measures of the great powers".<sup>12</sup> He spoke repeatedly of China's degraded position as a "hypo colony",<sup>13</sup> and recommended economic nationalism as a preliminary remedy. The formulation of the Third Principle, the Principle of Livelihood, which showed the way to economic reconstruction, was strongly influenced by Western ideas and theories,<sup>14</sup> especially by Marx, though Sun Yat Sen refuted the class struggle as a means for solving the economic problem of his

\* José Rizal, martyr of Philippine liberty, has given a classical description of the self-abnegating attitude of the Filipino upper and middle classes, which only want to be considered Spaniards and not natives, (Indians, as they are called in the novel). See José Rizal, *Social Cancer* (English translation of *Noli me tangere*), Manila, 1912.

<sup>10</sup> "The Third Principle, the Principle of Livelihood (Min-Sheng)", *San Min Chu I*, op. cit.

<sup>11</sup> Ibid., p. 103.

<sup>12</sup> Paul Myron Anthony Linebarger, op. cit., p. 176.

<sup>13</sup> Sun Yat Sen, p. 39. The syllable "hypo", taken from chemical terminology, expresses the low degree of the Chinese political status.

<sup>14</sup> *The Three Principles* was written between 1895 and 1900 in Europe, where Sun Yat Sen studied social and political conditions.

country.<sup>15</sup> It was the fundamental problem of poverty, however, which very soon led Sun Yat Sen to the concept of economic planning. In his opinion the equalization of land ownership<sup>16</sup> should be the basis for the realization of the Third Principle, although he had originally asserted that China no longer had large land owners, since the feudal system was abolished 2,000 years ago; he demanded, however, the right of the state to acquire the unearned increments arising from increased land values, since they were the result of industrial and commercial development. "The nationalization of the increase of land values is the true policy to effect the equal distribution of land; it is the basis of the Principle of the People's Livelihood."<sup>17</sup> The government should be entitled to buy land according to the amount of land tax reported by the owner and thus secure the necessary guarantee for honest self-assessment.<sup>18</sup> Subsequent rises in value above the original assessment should be confiscated in favour of a public fund "as reward to all those who had improved the community and who advanced industry and commerce around the land". Some years later, however, Sun Yat Sen realized that more had to be done, since maldistribution of holdings\* was one of the basic reasons for misery, and consequently he advocated a "land to the tiller" policy.<sup>19</sup>

It is of minor importance whether this analysis of the agrarian situation in China was correct or whether it was influenced by political expedience. It is, however, highly essential for this study to note that Sun Yat Sen, who more than anybody else has given authority to the claims of the national movements in all of Asia, considered the land problem as an effect of Western penetration and its solution as a way to the "equal distribution of land".

Considering the central position of land in the economic and social life of the people in the area the land problem assumed an importance which raised it far above the level of mere

<sup>15</sup> Maurice William, *Sun Yat Sen versus Communism*, Baltimore, 1932.

<sup>16</sup> Sun Yat Sen, pp. 409 ff., 430 ff., 434.

<sup>17</sup> Quoted from T'ang Leang-Li, *The Foundations of Modern China*, London, 1928, pp. 136-37.

<sup>18</sup> Sun Yat Sen, pp. 409 ff., 430 ff., 434.

<sup>19</sup> Third Lecture on Min Sheng, in the San Min Chu-I Discourses, Tsung-li, Ch'uan-chi, ed., Hu Han-min, Shanghai, 1930, I, p. 152.

political doctrines. Political programmes were based on its solution and it became used and abused by all kinds of political propaganda. The claim for land became the central programme of all nationalist movements in the area. In the minds of the people the national movement merged with the movement for land with the logical consequence that still today any national government which fails to solve the land problem will be considered a failure.

It is scarcely accidental that Rizal, the national hero of the Filipino people, in his great novel *The Reign of Greed*<sup>20</sup> describes the fight of a Luzon peasant for his land against the then foreign master, a Spanish friar. The central figure in the novel is the peasant, Tales, who has cleared and cultivated his land at the sacrifice of his wife and daughter. The land is taken away from him by the "land-grabbing" of a monastic order. He goes to court to fight for his right, but when he loses his case, he murders both the friar administrator and the usurper of his land—significantly filling their mouths with earth—and becomes an outlaw "tulisan"<sup>21</sup> and fighter for liberty.

Rizal uses the story of Tales for an appeal to the inhabitants of Calamba which, still today, is a centre of agrarian unrest.

Calm yourselves, peaceful inhabitants of Calamba! None of you are named Tales; none of you have committed any crime! You are called Luis Habana, Matias Belarmino, Nicasio Eigasani . . . . Your name is the whole village of Calamba. You cleared your fields, on them you have spent the labor of your whole life, your savings, your vigils and privations, and you have been despoiled of them, driven from your homes with the rest forbidden to show you hospitality! Not content with outraging justice, they have trampled upon the sacred traditions of your country! . . . Any one of you has suffered more than Cablesang Tales, and yet none, not one of you, has received justice . . . .

<sup>20</sup> *The Reign of Greed* (English translation of *El Filibusterismo*), Manila, 1912, pp. 30 ff., 86 ff. The novel is the continuation of *Social Cancer*, mentioned in footnote 9.

<sup>21</sup> Bandit.

Weep or laugh there in those lonely isles, where you wander vaguely, uncertain of the future !

The national movements in the various countries of Southeast Asia were marked by differences of environment and religion,<sup>22</sup> but everywhere they were carried by the bulk of the farming people who rallied to the cry for land.

In Indonesia, when still under Dutch rule,<sup>23</sup> the first considerable national movement was the Sarakat Islam<sup>24</sup> which, at times, gathered two and a half million members. Its most important objective, the mutual economic support of the people, was combined with the promotion of Islam. Its propaganda was directed against "sinful capitalism", officially identified as "foreign capitalism" (1917). After the first World War, Marxist ideas gained ground, chiefly under the influence of Dutch socialists, but also as a result of the successful Russian revolution. The socialist groups were especially active around Semarang and Soerabaja and accused the European plantation companies of being responsible for the intensive exploitation. Surjopranoto, a Javanese aristocrat, organized the sugar plantation workers into the Revolutionist Socialist Trade Union, later reorganized as the Personeel Fabriek Bond, which accused the plantations of poor labour conditions and of leasing the peasants' lands. Similar organizations

<sup>22</sup> Rupert Emerson, "An Analysis of Nationalism in Southeast Asia", *Far Eastern Quarterly*, February 1946, pp. 208 ff. See also Rupert Emerson, *Government and Nationalism in Southeast Asia*, Part I: "Introduction", New York, 1942; Virginia Thompson, *Government and Nationalism in Southeast Asia*, Part III: "Nationalism and Nationalist Movements in Southeast Asia", New York, 1942; Kenneth Perry Landon, "Nationalism in Southeastern Asia", *Far Eastern Quarterly*, February 1943, pp. 139 ff.

<sup>23</sup> Raymond Kennedy, *The Ageless Indies*, New York, 1942, pp. 125 ff. Kennedy points out that there is little evidence of a direct connection between Indonesian nationalism and communism, as is often asserted in Dutch literature. Bernard H. M. Vlekke, *Nusantara*, Cambridge, Mass., 1945, pp. 178 ff.; Charles O. van der Plas, *Nationalism in the Netherlands Indies*, 8th conference of I.P.R., Quebec, Canada, December 1942, Netherlands-Netherlands Indies Paper No. 1; Amry Vandenbosch, *The Dutch East Indies*, 3rd edn., Berkeley, California, 1942, pp. 315 ff. and 323 ff.

<sup>24</sup> Established in 1912.

joined in the fight against the sugar plantations which became the first serious test for the Indonesian national movement. Though no landlord class existed in Indonesia, the agrarian problem and its serious implications remained the main scope of the national movement. Nationalist-inspired cooperatives—Persatoean Cooperatie Indonesia—tried to fight the Chinese influence in the marketing of agricultural products in order to strengthen the economic position of the peasants, and the peasants' economic needs were always the major issues for Achmed Soekarno's movement,<sup>25</sup> which fought the decisive battle for Indonesian independence.

In Burma the avant-guard of the nationalist movement were the Thakins.<sup>26</sup> Their organization, established in 1930, was led by a group of Rangoon University graduates and was primarily concerned with the serious problems of Burmese peasantry. The Thakins became the parent organization of the AFPFL, the Anti-Fascist People's Freedom League, which started as an underground movement in 1943, and organized the peasants in the fight against the Japanese.<sup>27</sup>

The war provided the peasants in the villages with arms, and, thereby, decidedly accentuated the fight for land. The first national government of Burma considered the solution of the land problem by radical reforms its main responsibility and the recent factional split within the AFPFL has not affected the determination of the national government to continue the distribution of land.<sup>28</sup>

Nationalism in Indo-China<sup>29</sup> was essentially an Annamite

<sup>25</sup> Dr. Achmed Soekarno, together with other Western-educated intellectuals, founded in 1927 the National Indonesian Party—*Perserikatan Nasional Indonesia*. He is today the President of the Indonesian Republic.

<sup>26</sup> The term "Thakin" is the Burmese word for prince or lord. Officially the organization is called *Dobamma Asiayone*.

<sup>27</sup> J. Russel Andrus, "Burma: an Experiment in Self-Government", *Foreign Policy Reports*, December 15, 1945, pp. 258 ff. Andrus mentions that during and after the war the Thakins have shown leanings towards communism. The AFPFL, however, under the leadership of General Aung San (assassinated July 17, 1947), represented after the war most of the pre-war political parties. In November 1946, it separated from the communist parties.

<sup>28</sup> See Chapter IV (Burma).

<sup>29</sup> Virginia Thompson, *Nationalism and Nationalist Movements in*

movement. It was most powerful in the Tonkin area, where high population pressure and misery fostered the rise of an emotional nationalistic peasant movement under Western-educated leadership. After the first World War the revolutionary activities of Young Annam, which were particularly active in the north, and other radical peasant organizations were strongly influenced by China, and their activities were symptomatic of the national and agrarian tension in the country. It is significant that the present president of the Democratic Republic of Viet Nam, Ho Chi-Minh (Nguyenai-Quoc), the one-time leader of the national Annamite movement, has always promised the peasants national liberty with land. The alluvial lands and abandoned rice fields were to be divided among the peasants in need of land, and tax reductions given in years of bad harvest.<sup>30</sup> Today both Annamite states in the previous Indo-China consider agrarian reforms the most essential part of their economic programmes.

In independent Thailand the economic programme of the national movement was fundamentally the same as in the dependent countries. The original programme of Luang Pradist,<sup>31</sup> the brain behind the revolution of 1933 and leader of the People's Party, demanded emphatically that the government should take over all productive land. It should control

*Southeast Asia*, pp. 203 ff.; Lawrence K. Rosinger, "France and the Future of Indo-China", *Foreign Policy Reports*, May 15, 1945, p. 54.

<sup>30</sup> The organization of Annamite nationalism is *Viet Minh*, the League for the Independence of Viet Nam. It was founded in 1939 and, besides political groups, it included from the beginning a number of large peasant organizations. It was broadened in 1943 to include all national organizations fighting in the resistance movement. Its programme called for fight against any political and economic foreign domination. See Robert Payne, *The Revolt of Asia*, New York, 1947, pp. 210 ff.

<sup>31</sup> Luang Pradist Manudharm presented a nationalist economic programme in March 1933. It was based on the idea that the government should buy land from the land owners at a fair price and pay for it with bonds. The Thai government, however, refused the programme as "communistic", though it assured in Part V that the wealthy class must not be destroyed. Pradist went to Europe, but was only one year later officially cleared of the charge of being a communist. Though the programme was banned originally from publication in Thailand, it must be considered representative of the economic aims of Thai nationalism. See Kenneth Perry Landon, *Siam in Transition*, Shanghai, 1939, Appendix III A, pp. 260 ff.

the cultivation and marketing of rice and thus eliminate the Chinese middleman. Even today Thai nationalism fights the Chinese middleman as vigorously as the national movements in the former colonial territories used to fight the colonial powers. The Chinese middleman has always been the most visible reason for the deficiencies of Thailand's economic system and for the misery and backwardness of the peasantry.

It has been pointed out frequently<sup>32</sup> that the national movements in their initial stage were backed only by a few hundred thousands, while the population as a whole remained indifferent. This is true, but still, the fact remains that all national movements identified themselves with the claim for land and that it was this claim which finally rallied the many millions in the villages. The statements of the partly illiterate participants in the Sakdalist uprising in central Luzon (1935) clearly illustrate that the rebels associated the fight against landlordism and exploitation with the fight for independence.<sup>33</sup>

If we want to apply the famous metaphor that a nation exists only as long as it is confirmed by a daily plebiscite<sup>34</sup> we are allowed to say: The people of Southeast Asia have confirmed their national existence by a daily plebiscite for a solution of the land problem—and still do so.

The national movements in Southeast Asia greatly gained in strength during the last war. Occupation and devastation matured the national consciousness of the people and simultaneously the group consciousness of the peasants. For almost all national movements the war in the Pacific became the first opportunity for direct action on a recognized level. They acted according to local circumstances and either conducted a

<sup>32</sup> Virginia Thompson, *Government and Nationalism in Southeast Asia*, p. 127. See also Rupert Emerson, *Government and Nationalism in Southeast Asia*, Part I, Introduction, pp. 211 ff. Emerson agrees with Virginia Thompson that there are still relatively few convinced and conscious nationalists, but asserts that the nationalist movements do not couch their appeal solely in nationalist terms, but, naturally, seek to include different elements of the population.

<sup>33</sup> See chapter on the Philippines. The statements are reported by Joseph Ralson Hayden, *The Philippines, a Study in National Development*, New York, 1942, pp. 392 ff.

<sup>34</sup> Ernest Renan, "What Is a Nation?" (*Qu'est-ce qu'une nation?*), a lecture delivered at the Sorbonne, March 11, 1882, published in the *Scott Library*, London and Felling-on-Tyne, 1896, p. 81.



guerilla warfare against the Japanese invaders or collaborated with them, whichever course of action seemed most favourable in their fight for independence.

The national movements must be considered an integral part of a continent-wide, not yet concluded revolutionary process which affects the whole of human relations. Like all great revolutions in history it has both spiritual and economic aspects and is certainly not completed with the achievement of political independence. On the background of agrarian developments in Southeast Asia it can be asserted that it was the defective agrarian structure which paved the way for the national idea, and political developments have confirmed the emotional identity of the fight for freedom with the cry for land. Even in politically independent Thailand the national movement started as a movement for land and had little confidence in the benefits of an independent status which was unable to solve the problems of the peasants. The serious outbreaks of agrarian unrest in central Luzon, which have continued for more than a decade after the Islands became independent, suggest that the Philippine peasantry refuses to accept national liberty without the solution of the land problem. It might be difficult, therefore, to separate agrarian unrest from national unrest, but in any case it is extremely dangerous to believe that a status of political independence is the final solution, as long as a serious land problem exists and as long as the economic and social emancipation of the people is not achieved.

The great national enthusiasm of the post-war years has put an end to colonial rule in Southeast Asia, but no country in the area has as yet been able to achieve full control of its economic growth. The joyous confidence in the immediate and far-reaching effects of political freedom has frequently changed to bitterness and disappointment. The petty worries of the daily routine have infiltrated the national parties, and personal frictions and even splits have reduced their importance. Time and again the people in the villages have reacted bitterly against the national leaders who once conducted the heroic fight against colonial rule or the Japanese occupation armies but have failed to fulfil their hope for a solution of the land problem. For millions of tenants, indebted

farmers, and landless peasants the fight for economic independence and for the final victory of the national idea has been reduced to a fight for land.

There are still students whose observations are limited to the political aspect and who, therefore, do not recognize that the national idea in Southeast Asia has yet to be realized. The destitute rural population, however, does not think in terms of political constitutions but in terms of land and of shares in crops; they will struggle for the fulfilment of the national promise and are ready to accept any offer for help from whatever side it may be extended.

It is difficult within the frame of this study to give a definite answer as to the speediest way of full economic emancipation. Much is to be said for the argument that economic emancipation is impossible without a far-reaching reorganization of the agricultural sector of the economy, closely coordinated with a reasonable amount of industrialization. But the political setting for such favourable development has not yet been established. Recent trends indicate that the Western concept of a democratic system cannot be transferred so easily to nations who have not yet found their political identity.

The first and foremost concern of any government in Southeast Asia, therefore, is the reconstruction of the agrarian system in order to prepare the way for sound progress. There is no other road to peaceful development in an area where a few are endowed with riches and unlimited power but the millions are still poor and struggling in the dark.

## CHAPTER III

# INDONESIA: JAVA AND SUMATRA

### INTRODUCTION

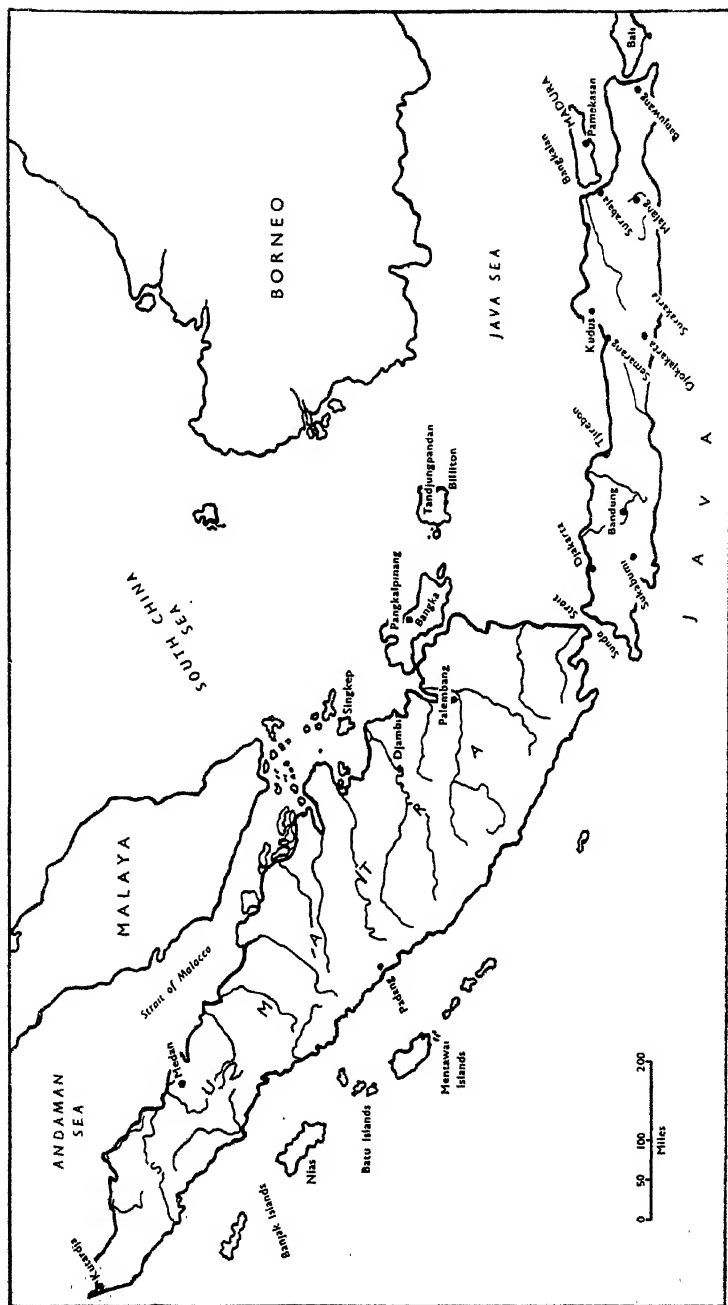
THE islands of the Republic of Indonesia form a link between Asia and Australia and comprise the major part of the Malay Archipelago. The population of Indonesia in 1959 was estimated at 90 millions of whom around 60 millions live in Java and Madoera. In 1957 the average density in Java was estimated at 424 inhabitants per square km. and at even 506 in Mid-Java;<sup>1</sup> in Sumatra it was only 29. The annual population increase in Java today is about 1,000,000. Such high population density is rarely encountered in other agricultural areas in the world and is, therefore, a significant fact in the study of the economic and social problems of the island.

The present political, economic and social situation in Indonesia can be understood only against the background of an analysis of the Dutch colonial rule. The first contact between the Dutch and the people of the Malay Archipelago occurred more than three centuries ago (c. 1600). It was a contact of "wild trading"<sup>2</sup> which the vigorous merchants of the East India Company imposed on the people of the Islands. In return for assistance in the many internal wars which wasted the riches of the Islands and the lives of their inhabitants, the Dutch obtained valuable privileges from the grateful rulers who paid lavishly with the work and sweat of their people. During centuries of increased contact, the Company developed from the status of a trader to that of a territorial ruler. It steadily assumed greater administrative responsibilities when this proved to be the only practical way to exploit

<sup>1</sup> This figure includes the city of Jogjakarta where 2.4 per cent of the total population is living and where the population density is 647 per square km.

<sup>2</sup> G. H. van der Kolff, "European Influence on Native Agriculture" in B. Schrieke, ed., *The Effect of Western Influence on Native Civilization in the Malay Archipelago*, Batavia, 1929, pp. 102 ff.

# JAVA AND SUMATRA



its monopoly. Taxes replaced trading profits, and force took the place of bargaining. The Company established its influence by means of indirect rule, dealing mainly with the princes and rulers who, as their contribution, organized a system of forced supply.

After the collapse of the Company at the end of the eighteenth century, the Islands came under the control of the Dutch Government. There followed a period in which a highly efficient colonial system developed with certain liberal tendencies. For the last eighty years of Dutch colonial rule the indigenous population received increasing consideration. After the Agrarian Act of 1870 and to a still greater extent after the introduction of the so-called Ethical Policy (1901), the Dutch administration tried to promote colonial prosperity by conserving and developing the native economy and society, independent of the imposed Western economy. Although the colonial administration of the Dutch may have been politically less elastic than Britain's more realistic policy in India and its educational efforts from the point of view of preparation for political independence were inadequate, Dutch economic policy in the Islands tried to develop some liberal aspects. Any political and economic study, therefore, must take account of both sectors of the colonial economy and consequently must be "a study of plural economy".<sup>3</sup>

The system of plural economy and society was best represented in Java, the most intensively colonized and most densely populated area in the Archipelago. During the last years before World War II, Western enterprise in Java and Madoera occupied more than 1 million hectares and about 2.3 million ha. in all of Indonesia for the cultivation of export crops. The Javanese farmers, meanwhile, tilled mostly food crops on an area of 7.9 million hectares and thus continued subsistence farming within the framework of a village economy which already then had been shaken to its foundation. Though Java comprises less than one-fourteenth of the total land area of Indonesia, it holds a key position because of its large, highly developed fertile low plains, its old communities and its central location. The other islands of the Archipelago, which were

<sup>3</sup> J. S. Furnivall, *Netherlands India: a Study of Plural Economy*, Cambridge, England, 1939.

called "Outer Islands" because of their secondary importance in the Dutch Empire, are partly undeveloped and were hardly touched by the colonial process.

This chapter deals with Java and Sumatra only. Java presents all factors pertinent to an investigation of a rural indigenous community emerging from colonial rule, while Sumatra is the most promising part of Indonesia in terms of settlement, resettlement and agricultural development. A study of Java necessitates an analysis of the most significant features of Dutch colonial policy during its last seventy years and an evaluation of its futile efforts to coordinate the interests of the Western and indigenous communities. At the same time due consideration will be given to the fact that the economy, the land and the people of the islands have been seriously affected by war-time destruction, unrest and neglect.

#### POPULATION PRESSURE AND LAND UTILIZATION

Though Java in the world of today certainly "affords the most remarkable example of the application of science to the development of the tropics",<sup>4</sup> its present productive capacity hardly meets the needs of its population. There is no other area in the world which supports as large a population with as great a rate of increase as Java. Dutch colonial policy contributed equally much to the growth of population and to the expansion of agricultural production, though it was never able to establish a balance between these two trends. Between 1815 and 1945, the population of Java increased from 4.5 million to around 50 million.<sup>5</sup> While this tenfold increase was taking place, the population remained predominantly rural. In fact, its dependence on agriculture was increased by the import of Western manufactured commodities which displaced the time-honoured handicraft industries. Indigenous agricultural production, mostly of food crops, was multiplied partly by clearing new ground and improving irrigation,

<sup>4</sup> W. G. A. Ormsby-Gore, "Report on Malaya, Ceylon, and Java", *Parliamentary Papers*, CMD 3235 (London, 1928), p. 110.

<sup>5</sup> Karl J. Pelzer, *Pioneer Settlement in the Asiatic Tropics*, New York, 1945, p. 162. If no other source is mentioned the figures are taken from official agricultural statistics and sources.

partly by an increase of the so-called secondary crops, and last but not least, by improved technical methods. But the race between increase of population and expansion of production in Java has more and more approached the Malthusian limits. The margin of food has dwindled from year to year and today the critical point seems to have been reached—agriculture has been expanded to marginal lands and cannot be more intensified substantially.

On the basis of demographic developments in other areas it has been estimated that in the very near future the death rates in Java will be as low as 15 per thousand. If the birth rate remains at the present 40 per thousand, the population will be increasing at a rate of 2.5 per cent each year. Though not unprecedented, this increase will lead to a doubling of the population in about thirty years.<sup>6</sup> The traditional figure for the rate of population increase in Java, 1.5 per cent per annum, belongs to the past.

Since the end of the thirties the farm area under cultivation has hardly increased (1939: 7.9 million ha.; 1957: 8.3 million ha.). The ever mounting pressure on the land is expressed in the pattern of land distribution for Java and Madoera in 1940. (Figures for the other islands are either not available or not fully reliable.) This pattern indeed is already so exaggerated that even the increase of subdivision which certainly has occurred since 1940 is no longer of practical importance.

<i>Average area per family</i>	<i>Percentage of agricultural land possessed by families</i>
0.5 ha.	70
0.5-1 ha.	25
1.0-2 ha.	3
2.0-5 ha.	1.5
over 5 ha.	0.5

The rate of population increase is so overwhelming that even the relatively fast recovery in the first decade after the war could not influence the general pattern. It is true that the

<sup>6</sup> Nathan Keyfitz "Indonesia's Population-Prospects", in *Proceedings of the World Population Conference 1954*, Meeting No. 14, Vol. III, pp. 199 ff.

production of agricultural commodities reached the pre-war level already in 1950-51 and food production somewhat later (1953-54). Since the population by 1959, however, had increased to about 90 million, per capita production and consumption are still below the 1934-38 level. This may also explain the great increase of rice imports from 278 million kg. in 1939 to 563 million kg. in 1957, and even to 779 million kg. in 1956.

The limit for expansion of the agricultural area in Java at the expense of forest land has been passed, since 30 per cent of the total area should be forest-covered in order to protect the water supply vital to the wet rice lands. Deforestation has exceeded this safety limit and the remaining forest area has decreased to a dangerous 23 per cent. This explains the estimate of an official commission in 1936-37 that only 300,000 ha. of arable land is still available in Java.

The combined effects of population pressure and scarcity of land have resulted in a minute subdivision of the cultivated area. In 1938 the average, undoubtedly inadequate, size of holdings per taxpaying land owner was only 0.86 ha., of which 0.36 ha. were wet rice land (sawah) and 0.50 ha. dry ground. Between 1938 and 1957, when the population of Java and Madoera grew from 46 to 56 millions, the area of irrigated rice fields had not increased by even 100,000 ha. and of non-irrigated rice fields by 300,000 ha. Whereas the per capita area of irrigated and non-irrigated rice fields had been 0.172 ha. in 1938, it had decreased to 0.151 in 1957.<sup>7</sup> In the same period the total estate area in Java and Madoera had also decreased considerably. While during the Japanese occupation it had dwindled from more than 1,000,000 ha. in 1940 to a figure of only nominal importance, it gradually increased from 364,000 ha. in 1950 to about 631,000 ha. in 1956. In terms of actually planted estate area, the figures for 1940 and 1956 are 591,000 ha. and 374,000 ha. respectively.

The steady increase in the land area under cultivation in Java had come to a standstill already in the thirties. The later improvement of agricultural methods, better crop varieties and expansion of the irrigated areas have achieved little more than counteracting the inevitable process of erosion and soil

<sup>7</sup> *Statistical Pocketbook of Indonesia*, 1958, p. 50.



deterioration. Much can still be achieved, however, in the "Outer Islands" where waste land is waiting for modern exploitation. In addition, the rich industrial reserves such as oil, tin, bauxite, coal and water-power could contribute to the solution of the population problem in non-agricultural terms and facilitate the absorption of the rural excess population.

Though Java is far advanced in large-scale technical irrigation, intensive methods of land utilization, seed selection and the cultivation of secondary crops, the working capacity of the Javanese peasant is far from being fully employed. Java is still marked by an abundance of unused man hours, which is one of the most impressive arguments against the existing economic system. This wasted capacity for production could be usefully applied to raise the living standard of the population. That, however, would necessitate a basic change in the economic setup of the island.

The Dutch Agricultural Advisory Service was of the opinion that agriculture in Java could be still more intensified and that improved agricultural methods would result in a considerable rise in the standard of living in spite of the growing population pressure. This view, however, was certainly unrealistic, since already during the last pre-war decade agriculture in Java was characterized by extensive double-cropping and by the planting of dry season crops in addition to rice wherever possible. The actual effects of increased irrigation on the living level as a whole have been limited and were more or less offset by the population increase. Possibilities still exist for new constructions in order to facilitate double-cropping by better irrigation, but in general the economically most promising irrigation works have been built, and additional irrigation will be highly expensive. Though the capacity for cultivation might still be increased to a certain extent—surely not very much—the effect on the level of living would not be great. As in other overpopulated areas, the yield per acre in Java is high, but the yield per farmer is low. In other words, agriculture is too intensive in the use of labour. It has been stated, and rightly so, that the intensive features of Javanese agriculture have become more and more exaggerated. The cutting of the rice crop stalk by stalk by human labour who obtain only a fraction varying from one-fifth to one-

sixteenth of the crop as wages for the work of cutting, might be a democratic means of income distribution, but is somehow inconsistent with economic progress.<sup>8</sup>

The situation in Sumatra is quite different. The island comprises 25 per cent of the total area of Indonesia, and has a very favourable land-man relation (30 per square km). Agriculture in Sumatra has always been predominantly estate agriculture. In 1940 estates comprised more than 1,400,000 ha. of which only about 600,000 ha. were actually planted. In 1957, however, only about 432,000 ha. out of a total area of 1,129,000 ha. were cultivated which reflects the state of continuous unrest and disintegration which has marked the island during the last decade.

#### THE WESTERN EXPORT ECONOMY

Under Dutch rule Java, and to some extent also Sumatra, developed from subsistence farming to large-scale production of raw materials for the world market.

The colonial rule imposed upon the Islands a large-scale production of commercial crops and established them as an important factor in the world market and in the balance of international payments. But World War II and post-war difficulties had a great impact on the production, and the economic position of Indonesia in the world market has been considerably reduced. In 1957 the coffee and tea production of 51 million kg. and 35.7 million kg. respectively had not yet reached the levels of 1935, though Indonesia between 1950 and 1956 had increased the production of coffee from 13.5 million kg. to 57.4 million kg., and of tea from 27.9 million kg. to 34.8 million kg. The level in 1935 was as high as 81.5 million kg. for coffee and 65.6 million kg. for tea. The exports of copra and palm oil have been reduced to one half, of leaf tobacco to less than one-third, and of sugar even to 15 per cent of pre-war totals. On the other side the rubber and tin exports have almost doubled, and the petroleum exports even tripled. As a result of political unrest the export statistics for 1958 indicate considerable declines against 1957; illegal exports, however, are not included in the statistics.

<sup>8</sup> Natham Keyfitz, *op. cit.*, p. 206.

These developments have greatly changed the percentage of the individual export products in the total export value. Rubber could so increase its share from 28 per cent in 1939 to 36 per cent in 1957, and petroleum from 20 per cent to 33.3 per cent, while the shares of sugar and tea in the same period have been reduced from 10 per cent and 7.4 per cent to 1.8 per cent and 3.1 per cent respectively.

The increase of the petroleum export and the heavy reduction of the sugar exports have had a decisive impact on the relative weight of Java (including Madoera) and Sumatra in the export economy of the young Republic. While the volume of exports from Java since 1939 has been reduced to less than one-third, Sumatra's exports have more than doubled. In terms of rupees, the value of Java's exports in 1957 was 1,554 million and that of Sumatra 7,190 million. The political and military unrest in Sumatra in 1957-58 must be seen in the light of these economic developments.

The economic and political crisis of the post-war years with its serious effects on the export industries of the Islands has reduced the position of agriculture to that of a weak partner in comparison with the prosperous petroleum industry which is largely American- and British-controlled. While 2,669 million kg. estate products and 1,297 million kg. farm products were exported in 1939 the figures for 1957 show a completely changed picture: the entire volume of agricultural exports was reduced to a little more than 50 per cent. While the farms with an export production of 1,060 million kg. could almost maintain their pre-war position, the export production of the estates was reduced to 785 million kg., i.e. to less than one-third. In the same period the export of mineral products increased from 7,500 million kg. to more than 14,800 million kg.

This development is not the result of market trends; it can neither be explained by the change of estate management from the Dutch companies to the Indonesian government. It has to be viewed in the light of the unsolved structural problem of the Islands and the permanent agrarian unrest. The crisis in the agricultural sector of Indonesia's economy is expressed by the fact that since 1950, in spite of the growing petroleum shipments, the total exports have only barely maintained their dollar value, while imports have nearly

doubled. This has led to the almost complete disappearance of the once very considerable export excess (in 1956 only 2.9 per cent of the total export) and to a serious reduction of the living level of the fast increasing population. These developments have further increased the dependence on world market trends and the relative prosperity of the people remains closely tied to small price fluctuations of a few highly sensitive commodities. It is only natural that this dependence is felt strongest in Java, where the system of plural economy resulted in the large-scale cultivation of commercial crops on plantations.

The development of Java's export production was rendered possible by large-scale foreign investments, the greater part of which were made after 1900. In 1937 the total amount of outside capital was estimated at 5,657 million guilders or US \$2,263 million (1 guilder=0.40 US dollar). Seventy-five per cent of the total amount was Dutch. In addition to private initiative, the government's participation in the economy was very important. This can be easily explained by the historical background of Dutch colonization. When the East India Company went bankrupt, the government had to step in and was forced to assume commercial as well as administrative functions. It became a strong partner in the economic life of the Islands and exercised general interference in the whole complex of economic relations which is so typical of Dutch colonial rule. Side by side with private business, the government had a dominating position as investor and owner of large-scale enterprises, mostly in the industrial, but also in the agricultural field.

The Dutch share in the production of agricultural export commodities was considerable. Investments in sugar and rubber, in about equal parts, accounted for about two-thirds of the total investment in agriculture. Sugar production was predominantly Dutch, and rubber production was Western-controlled (though also mostly Dutch) to about 50 per cent. Foreign investments likewise played a large part in tea and coffee production. The Dutch also held big interests in the mineral oil production and mining industry.

Before the depression of 1929 a large volume of interests and profits flowed from the plantations, mines, and other colonial enterprises to Europe. The East India Company poured out

in dividends alone 36 times its original capital or an average of 18.5 per cent a year. Of course, the slump eliminated a large amount of capital, and for some time commercial and industrial profits disappeared almost completely. But a period of recovery followed in the thirties and by 1940, A.S. Keller<sup>9</sup> estimated the average annual returns of the Dutch at 200 million guilders in direct profits and 120 millions in indirect gains, such as salaries, pensions, and wages paid in Europe.

Indeed, the economic ties between the Netherlands and the East Indies were very close. Every third Dutch family was in one way or another economically interested in the dependency. Vandenbosch<sup>10</sup> reported that about 80,000 Dutch people were employed in Dutch industries exporting to the East Indies, and that another 80,000 were employed in the consumption of the profits derived from the Indies. Vandenbosch's estimate, however, seemed rather low, if the interest of the Dutch merchant fleet, of Dutch shipbuilding, of the tens of thousands of pensioners of the colonial service and of the large colonial business houses were taken into consideration. Callis<sup>11</sup> was probably nearer the truth when he estimated that from one-tenth to one-fifth of the entire population of the Netherlands directly or indirectly depended on the commerce and industry of the East Indies.<sup>12</sup> On the other hand, the prevalence of Dutch management and initiative, quite apart from the investments, delayed the development of a normal social stratification of the Indonesian people who did not participate in the economic and social responsibilities. This contributed considerably to the post-war tension and may help to explain the background of the recent actions of the Indonesian government against Dutch capital and management.

<sup>9</sup> A. S. Keller, "Netherlands India as a Paying Proposition", *Far Eastern Survey*, January 17, 1940.

<sup>10</sup> A. Vandenbosch, *The Dutch East Indies, Its Government Problems and Politics*, Berkeley, California, 1942, p. 223.

<sup>11</sup> Helmut G. Callis, "Capital Investment in Southeast Asia and the Philippines", *Annals of the American Academy of Political and Social Science*, March 1943, p. 27.

<sup>12</sup> Of Java's annual income about 32 per cent were remitted to European industries, about 8 per cent went to the government and the professions, so that only 60 per cent were left for the people of the Islands.

Foreign enterprise, naturally, made a large contribution to the budget of the East Indies. At certain times it was as high as 40 per cent, and since government industries supplied 20 per cent, only the remaining 40 per cent had to be raised through taxation of the people. Though the tax contribution of the Indonesian population was relatively small, a fact which has often been cited as an example of the beneficent attitude of the colonial administration, it only proves that the colonial people did not participate in the flourishing colonial economy. In view of the narrow limitations of the village economy a contribution of 40 per cent to the budget seems quite considerable.

The Agrarian Act of 1870 had initiated a new period of colonial economy. Economic activity was expanded by granting long-lease concessions to foreigners for periods up to seventy-five years. Due to the new trend of economic liberalism by the turn of the century the Dutch government discontinued the traditional shipping of profits to the treasury in The Hague, but gave instead broad opportunities for private initiative. At the beginning of this century European capital poured into the East Indies. It opened the Outer Islands, especially Sumatra, for colonization and established there a large-scale plantation industry whose exports in the years before World War II greatly exceeded those of Java and Madoera. It further made possible the development of the plantation economy in Java, especially of the sugar industry.

Though this flood of predominantly European investments undoubtedly initiated a process of construction and new economic development in the Islands it caused at the same time disintegration and dissolution in the age-old sector of indigenous economy and society, especially in Java. By developing communications and public health, by increasing legal security and providing at least a minimum of education, the colonial administration established the most favourable conditions for Western capital and certainly also intended to make a contribution to the improvement of the level of living of the people. The increasing rate of population growth and the institutional limitations of colonial policy, however, counteracted these efforts.

## THE WESTERN INFLUENCE ON THE VILLAGE COMMUNITY

An analysis of the village community and of the changes imposed on it by Western influence is most necessary for the understanding of the reactions and emotions of the Indonesian people during the first years of independence.

The indigenous sector in the economy of Java represented an aggregate of separate village and family units, whose mutual contacts were limited. In critical periods the people showed a tendency to retreat to village economy as the last line of defence. De Kat Angelino gives an excellent picture of the economy of the original Eastern society, in the framework of which "the barter of commodities and of labour, supplemented by a restricted use of money for the acquisition of commercial produce and for the payment of taxes, is sufficient for the slow rotation of goods within a limited circle". Eastern society formed its members into an economic unity "free from the obsessing care for the future which continually oppresses the West".<sup>13</sup>

The Dutch colonial policy affected the village economy in different and rather contrary ways. An agrarian legislation, the Agrarian Decree of 1870, permitted the Dutch government to make long-term concessions of unused land, though at the same time tried to secure and reserve the property rights of the population. In its legal content, this Act represented a compromise between the interest of the Dutch entrepreneurs in suitable land for large-scale plantation production and the rights of the local population under customary law. The principle was to acquire for the public domain only such rights as remained after the deduction of all existing rights to the land. The legal problems involved, however, were very complicated since the established rights to the land were of a collective nature and vested in the village or tribe rather than in the individual; in the end the interpretation of the customary law was unfavourable to the population and promoted the interests of the plantation capital. For many years the question of Indonesian property rights and their violation by the agrarian

<sup>13</sup> A. D. A. de Kat Angelino, *Colonial Policy* (abridged translation from the Dutch by G. J. Renier), The Hague, 1931, p. 69.

legislation were subject to a heated discussion.<sup>14</sup> Far more important, however, than this legal discussion was the actual economic development which resulted from the official interpretation of the law.

Though the Indonesian customary law was recognized only when it did not go against the general interest—which most often happened to be the interest of the plantation capital—the agrarian legislation secured for the village communities a considerable area of land which could not be acquired by foreigners and thus provided the basis for the maintenance of the traditional village economy. It prevented at the same time the concentration of ownership (with some exceptions in West Java) and thus the formation of a landlord class, such as we find in other parts of Southeast Asia. But even if Dutch colonial policy guaranteed in this way the continuity of the Indonesian community, the village and its people became cornered into a very limited sector of the country's economy, a fact which has contributed considerably to the difficulties of the new government in the fields of administration and business management.

Of equal importance was the steadily growing invasion of the village economy by money as the carrier of foreign commerce. Money was needed to pay the land tax, to light the houses, to buy salt from the government monopoly, to buy fish and cigarettes and many other items needed by the villagers once they were influenced by Western civilization. The demand for cash was further increased by the import of Western ready-made and superior commodities which gradually replaced the native handicrafts. The cash amounts spent by the villagers very soon became quite considerable. A natural tendency developed to increase contacts and to merge the separated economies as trade relations multiplied.

The opportunities for cash incomes, however, were limited. The problem was greatest for those who held only a share of communal land which could not be mortgaged, and which they, therefore, would lease to another villager, an investor group or, most likely, to the rice trader for a cash rent payment in advance. Generally the lessee would not cultivate the land

<sup>14</sup> A. Vandenbosch, *The Dutch East Indies*, pp. 244 ff., gives an excellent review of this discussion.



himself but would employ the owner or lessor as tenant on a share-cropper basis, taking at least one-half and often up to five-sevenths of the crop. If the lessee was a rice merchant he assured himself in this way of a cheap supply of rice, while an investor group was likely to make high profits by combined land-renting and share-cropping operations. The pressing money situation very often forced the small farmer to become a sub-tenant and share-cropper on his own land and be satisfied with a rather low rent.<sup>15</sup>

By the impact of economic forces the colonial system gradually changed the age-old, unwritten constitution of community life, where the rights to the land were primarily vested in the village, and where the individual had only secondary and not transferable rights to specified plots. Thus, Western influence weakened the traditionally strong position of the village community.

In the course of Western penetration plantation companies starting operations in the neighbourhood of a village were favourably accepted. The peasants, always in need of cash, became accustomed to lease their land for very modest advance cash rents on terms set by the company. Even in villages where communal land ownership with a periodic redistribution of *sawahs* (wet rice land) was still practised the *lurah* (head man) of the village, tempted by the high cash commission offered by plantations, would lease the village land even cheaper than the individual peasant or, as frequently was the case, sell out the entire village to the company. The Dutch colonial administration made several attempts to protect the village communities by legal measures, but was hardly ever successful, since the mechanism of the colonial economy was usually stronger than the good intentions of a beneficial administrator, and, as Pelzer has stated, "the Javanese peasant has regularly come out of the transaction at a disadvantage".

Western plantations had a great impact on the crowded village community. They brought increased cash income to

<sup>15</sup> Pelzer, *Pioneer Settlement*, pp. 169 ff. He quotes a survey made in 1939 in the regency of Toleoengagoens, Eastern Java, which revealed that out of a total of 2,740 land-holding peasants 74.2 per cent had leased some of their land and 33.9 per cent had leased all their land in order to obtain cash.

the landless peasants, the first contacts with advanced agricultural methods, improved communications, health policies, and public safety. All this certainly contributed to progress, but at the same time also to an increase of population for which the economic system could not provide sufficient opportunities. The new contact with Western enterprises, with the expanded monetary circulation, introduced new ideas and values and defeated time-honoured traditions. Once, only land ownership granted rights and prestige, but now the landless peasant with money in his pocket upset the social balance of the community and further stimulated the urge for cash.

It would be a mistake, however, to consider the colonial system responsible for the process of disintegration. The dissolution of stagnant social forms is a natural process in accordance with the law of social development which rules human destiny. In spite of its spiritual values, the traditional village community with its rigid rules blocked the way to progress. No social stratification ever developed, and when the village economy finally broke down almost 90 per cent of the people in Java consisted of small subsistence farmers and casual or regular labourers in the Western industries. They became the broad foundation upon which the pyramid of the colonial economy was built, and the colonial administration never made any serious effort to change this pattern of society.

The picture of the economic dependence of the village community would hardly be complete without mentioning the traders, mostly different in race and always socially distinct from the peasant community. Wholesale collectors, mostly Chinese but also Arabs, act as middlemen between the producer in the village and the market and perform a doubtful and very expensive combination of services. They act as brokers, warehouse men, processing producers, and also as bankers who finance the local crop production. Financially and technically the trader has an immense superiority over the uninformed village producer, who has neither cash nor credit and often is in real distress. When advance payment is given on the crop, the most expensive form of credit, the market price, usually unknown to the producer, is no longer a standard,

and the whole transaction is made on the terms of the middleman.

No statistics exist on the actual profits of the middleman, and the combination of credit and sales transactions makes it particularly difficult to get reliable information. It is, however, not an exaggeration to assume that the share of the middlemen averages about 50 per cent of the market price,<sup>16</sup> certainly a very high profit in relation to the services extended, even if the credit and storage risks involved are taken into consideration. The lack of a properly organized market is one of the greatest defects of the existing economic system in Java and Sumatra and is the chief cause of social dissatisfaction and unrest.

Within the framework of a colonial economy with its powerful impact of economic and social interests it has been impossible to develop country-wide efficient cooperative institutions which would bridge the period between sowing and harvesting and provide cooperative storage and marketing facilities. It can hardly be denied that also in independent Indonesia powerful vested interests resent government interference. Their resistance can only be broken by a high-spirited educational campaign which would strengthen the morale of the people and inspire confidence in community and cooperative action. When this has been achieved, the period of disintegration initiated by Western influence has finally come to an end.

#### THE AGRARIAN STRUGGLE OF THE POST-WAR YEARS

The economic and social inheritance of the Republic of Indonesia from the colonial past was ambiguous, both in terms of reality and promise. The almost complete exclusion of the indigenous people from higher administration and from the management of the export economy, the limited facilities for education, and the inherent contradiction of the so-called system of plural economy (only another term for non-participation in the economic development), were bound to lead to a period of political and economic disintegration before economic reconstruction could have a genuine

<sup>16</sup> J. H. Boeke, *The Structure of Netherlands Indian Economy*, New York, 1942, p. 178.

chance for success. A fair chance for gradual economic evolution, as for example in India, has never existed in the political and social climate of Indonesia. Even if the relations between the Netherlands and the new Republic had developed in a more fortunate atmosphere, and even if the Irian conflict had never existed, it is difficult to conceive how a bridge could ever have been built between the economic past of the Indonesian people and their enthusiastic hope for a better national future. The actual break with the Netherlands was only the final conclusion of a balance sheet which had given very little credit to the people of Indonesia.

The new Republic has to face three major problems :

- (1) To rebuild the country after war, occupation and revolution ;
- (2) to establish its people economically and politically as masters in their country ;
- (3) to solve the complex problems of political organization in a society where regional and religious groups hold powerful vested interests.

In view of the magnitude of these problems it is understandable that the government has turned to a policy of intense nationalism, opposed to any interference from outside, and aims at the establishment of a social democracy with a strong emphasis on equality. Faced by centrifugal forces which menace the actual existence of the national government, the concept of the so-called "guided democracy" seems an attractive alternative.

Java is an area of predominantly small, often too small, owner-cultivated farms. Holdings of more than 12 acres are only common in West Java, the main plantation area of the island. The achievement of political independence could not halt the progressing concentration of land ownership which in the undiversified economy of Java is the result of increasing population pressure, rising rentals, and a constantly declining average size of holdings. When farms become economically under-sized and no supplementary employment is available the peasants' only alternative is to sell out to the larger land owners who thereby increase their economic and political influence.

At the time of the national revolution many villages, especially in the sugar areas, were crowded with landless peasants. The post-war governments were unable to slow down the process of concentration,<sup>17</sup> since the larger owners holding the key positions in the villages, had better access to information and usually obtained the greatest benefit from fertilizer subsidies, seed campaigns, and mechanization schemes, while the small holders were almost bypassed. The same has to be said about the cooperatives which are almost exclusively managed by the larger owners. Owing to their influence on the state machinery in charge of the distribution of subsidies and other benefits, the larger farmers were able to strengthen their position at the expense of the small peasants, where personal contacts and political pressure promised rewards.

During the struggle for national survival the peasant in Java continues his fight against all economic odds. The government can give him little more than its sympathy. Institutional reforms were promised but are being implemented only slowly, and in the meantime the fateful interaction of population increase, shortage of extension and credit services, and the full weight of unfavourable business trends result in growing misery and difficulties. In West Java an increasing number of small farmers, void of credit and initiative, lease and will most likely lose, their land to operators of expanding estates on which they themselves work as labourers. Tens of thousands of others are joining the army of spontaneous immigrants to Sumatra, believing only in their own initiative and thus impairing any forward planning of migration.

In other words, the struggle is centered on the right to cultivate the soil for a living. The prerogatives of the state and of the estates are contested by the peasants with too little or no land at all. The settlement programme of the government is increasingly antagonized, and might be finally paralyzed by agrarian rebellion. It is becoming evident that the so-called "spontaneous migration" at the present stage is not much more than an unrestricted and uncontrolled peasant self-help which contains strong elements of agrarian unrest and has only little in common with planned action and calcu-

<sup>17</sup> D. W. Fryer, "Economic Aspects of Indonesian Disunity", *Pacific Affairs*, September 1957, p. 195 ff.

lated risks. The official acceptance of the spontaneous migration might indicate that the government acknowledges the existence of forces beyond its control.

The position of the large plantations is still uncertain. The long-pending limitation of leases to thirty years has had a discouraging effect, since such period is too short to justify any noteworthy investment in fixed equipment. In 1958, about 1,500 estates were reported to cover an area of 5.4 million acres, of which 1 million was planted with rubber, 247,000 with oilpalm, and 208,000 with tea. Forty-five per cent of all estates were formerly Dutch-owned, but are now managed by the Government Estates Central Bureau.<sup>18</sup> Actually 75 per cent of the entire estate area planted with sugar cane, kapok, chin-chona, coffee, tea, cocoa and tobacco is located in Java where 42 per cent of the total planted area is under estate crops.

In East Sumatra where foreign-owned plantations operate on seventy-five year leases and concessions, the agrarian conflict threatens their very existence with the result that the major part of the island's foreign exchange earnings is jeopardized. The insecurity of the post-war years affects seriously the plantations both in the field of investment and production. Many of the rubber plantations with over-aged stands hesitate to make necessary investments for replanting, as the full amortization of the investments seems to be doubtful. Production, however, is also affected seriously by the fact that large areas of the rubber and tobacco estates, about 300,000 acres in January 1957, are occupied by squatters.

Though squatters generally do not destroy the plantation crops their presence interferes with production and frequently with the draining operations. It has been reported that around towns as Medan and Bindjei the squatters have become so numerous that a number of plantations had to be closed down. In 1957, Pelzer<sup>19</sup> estimated the number of squatters who had invaded the estates at not less than 500,000 including women and children. Today the estimates are frequently higher.

<sup>18</sup> U. S. Department of Agriculture, Foreign Agricultural Circular, FATP, 11-59, March 19, 1959, "Indonesia's Agricultural Production and Trade Affected by Economic Instability".

<sup>19</sup> Karl J. Pelzer, "The Agrarian Conflict in East Sumatra", *Pacific Affairs*, June 1957, Vol. XXX, No. 2, pp. 151 ff.

According to Pelzer the majority of squatters are either peasants from villages hemmed in by plantations or peasants who have migrated to East Sumatra from other parts of the country. The remaining numbers are largely Javanese labourers who used to work on plantations before the war and now are trying to make their living as small subsistence farmers.

It is significant that the great majority of squatters in East Sumatra is organized in powerful peasant organizations which are closely affiliated with the big political parties. These organizations are leading the fight against the foreign plantation owners and all indications seem to prove that the Indonesian-owned plantations are not within the margin of safety. The result of the struggle is that the once solid plantation complexes are today honeycombed with extensive squatter areas.

The food shortage immediately after the war compelled even the Dutch colonial authorities to legalize the status of the squatters by giving them temporary cultivation permits. The subsequent outlawing of unauthorized occupation of public domain and estates has never been implemented, since the ejection of the squatters would have violated the proclaimed objectives of the new Republic which recognized the priority of the claim of the Indonesian peasant for land. The government could prevent neither the invasion by new squatters nor remove the old squatters.

This development has been a heavy mortgage on the delicate trade and payment balance of the Republic. In the Emergency Law No. 1 of 1956 punishment and immediate eviction of all sentenced squatters was imposed. Still, the peasant organizations continued their militant opposition only little impressed by the reduction of the export crops and the declining earnings of foreign exchange.

The peasants' claim for land against the rights of the plantations in East Sumatra places the agrarian problem in its proper focus. It is very doubtful whether legislative and administrative measures can change the atmosphere and encourage investments which are necessary for the successful operation of the estates. Even if the Emergency Law and other legislation to the same effect could be enforced more successfully than at present, the agrarian tension will remain the most

powerful insecurity factor for years to come. Under the present economic, social and political conditions the suitability of the plantation as tenure type can rightly be questioned since it is an obstacle to the realization of the peasants' claim for land. The greater efficiency and foreign exchange earning capacity of the plantations are more than outweighed by their unfortunate impact on the social and political life of the nation, which on its way to economic independence has to give the highest priority to the solution of the agrarian problem. It should be possible to produce, under suitable alternative tenure conditions, export crops which would at least partly compensate for the loss of foreign exchange now made by the plantations. The stubborn insistence on the plantation as exchange earner will certainly prove extremely costly, as it is unquestionably fateful to deny land to a peasant population who identified the struggle for national independence with the fight for land. To maintain plantations in spite of the land crisis might involve the danger of sacrificing the possibility of a democratic development for a few hundred million dollars of foreign exchange per year.

There are strong indications that the situation cannot be remedied substantially by merely nationalizing the plantations. Neither state management nor private Indonesian control of plantations is needed, but a new approach to the structural problems of the economy with the main objective to establish a small holder system. It is quite significant in this context that the Report of the U.S. Department of Agriculture on Indonesia's Agricultural and General Economic Outlook for 1959 points out that the greater part of the coffee production is grown on small holdings and that this part of the production is increasing, while the estate production continues to decline. The same holds true for the rubber small-holdings with about 600 million trees covering 1.3 million ha., which in adverse periods have proved their superior capacity for adjustment. During the early fifties, when the estate rubber production was hampered and frustrated, the export of Indonesian rubber not only expanded beyond pre-war levels but even substantially exceeded the rubber exports from Malaya.<sup>20</sup> This boost in

<sup>20</sup> G. C. Allen and A. G. Donnithorne, *Western Enterprise in Indonesia and Malaya*, New York, 1957, pp. 136 ff.



export was solely due to the steep increase of rubber production on small holdings which thus proved their considerable flexibility in management. During the rubber boom, caused by the war in Korea, the small holdings more than doubled their output and were able to reduce it gradually, as the war came to an end. The estates, however, were incapable of such flexible reaction, since they were dependent on estate labourers who left the plantations in the beginning of the boom because share-cropping on the small holdings was economically more attractive than the fixed plantation wages.

Indonesia has become fully conscious of the seriousness of its agrarian problem, and the government is engaged in formulating a progressive approach to land policy. At the beginning of 1960 a Land Registration Act was issued which introduced procedures for surveying, mapping, recording of rights and transfer of land. A Tenancy Security Legislation is designed. Although the concept has gained ground in recent years that land is the foundation of national prosperity and, consequently, should be controlled by the Indonesian nation and not by community groups, it has found its legal formulation only now. Indeed, the final break with time-honoured communal traditions in land policy will be of decisive importance. It will establish the priority for the nation to regulate the use of the not alienated land resources in accordance with its economic and social interests.

Any communal or regional land policy which goes against the interest of the nation as a whole would be an obstacle to the implementation of a development programme and, therefore, to general welfare and prosperity. The nation-wide concept is indeed of the greatest importance for Indonesia since a regional land policy might jeopardize the very national existence. The continued fight against one-sided communal solutions of the land problem has become one of the most important criteria for the evaluation of agrarian policy programmes in many underdeveloped countries where strong communal interests struggle to keep the land under control.

The inconsistency between the national and the communal land policies is reflected in the split among the powerful peasant organizations supporting the squatter movement in East Sumatra. The local squatters follow to a great extent the

Badan Perdjuangan Rakjat Penunggu Indonesia Sumatra Utara faction which claims that the rights of the local population based on customary law have priority over the claims to land by migrants from other areas, while the Petani and Barisan Tani Indonesia factions maintain that all citizens have equal right to the land.

The national concept of land policies would enable the government to fulfil its promise for a better distribution of prosperity by a more equal distribution of land. It will provide the possibility for an extensive survey and analysis of the total resources of the entire Archipelago, even of its remotest islands, under a national focus. The present settlement policy may to some extent increase food production but will hardly reduce the population pressure in Java and Madoera. Even in the years of the greatest activity only 40-50,000 families were resettled in Sumatra, while the annual population increase in Java almost reached the one million mark.

#### AGRICULTURAL CREDIT AND COOPERATIVES

The disintegration of the closed village economy brought the cash problem to the peasant. Since the small amounts earned in petty trading transactions were hardly sufficient for daily expenses, he was forced to borrow not only for production but also for consumption purposes at usurious rates of interest.

The people in Java and Madoera still live on credit, a fact which often erroneously is blamed on their natural disposition but which is largely a result of the entire social and economic environment. A credit survey of the whole of Indonesia has not yet been conducted and, consequently, no information exists as to the actual need for production credit of the Indonesian farmer and his customary sources of credit supply. The government is fully aware that for the time being the social function of the private moneylenders is indispensable for supplying adequate funds for credit. This may help to understand experiments like that of the newly established Bank for Farmers and Fishermen which extends loans through selected moneylenders acting ~~as~~ agents. These

moneylenders are closely supervised by the bank and it is reported that the experiment has been quite satisfactory. Although emergency situations may frequently ask for a somewhat relaxed policy, measures like these are doubtful and jeopardize the mere objective of a progressive agricultural policy. They confirm and even strengthen the trader-moneylender element in the village instead of counteracting it, though it is the greatest obstacle for the economic emancipation of the peasant.

Credit from government and government-supported sources is granted either directly or through cooperatives. Government credit is granted by the Bank Rakjat Indonesia (People's Bank of Indonesia) with 114 branches throughout the country, and the Bank Tani Dan Nelayan (Bank for Farmers and Fishermen). Besides these two banks 4,600 village banks and 3,600 village rice banks extended loans to farmers in 1958. Other government institutions support special agricultural activities, as for example, the cultivation of sugar cane, tobacco, copra, capok, especially for export.

The village banks and the village rice banks are the specific credit institutions for the villages and are provided with an initial capital of Rs. 150 million by the government. The interest rates of all government banks are fixed in such a way that the banks can cover their operational costs, while the farmer shall be assured a relatively low interest rate compared with the private moneylender rates. But even the official interest rates are high, 12 per cent per annum from the government banks and 1 per cent per week from the village banks in 1958. Rice loans even cost 40 per cent per six months. Government sources indicated that these rates could not be reduced due to the shortage of capital and the great credit risks involved. Compared, however, with the interest rates of moneylenders and shopkeepers (5-6 per cent per month for money loans and 100 per cent per six months for rice loans) the official rates, indeed, look almost moderate; on the other side, moneylender credit is much more convenient because it is informal and easy to get even for consumption purposes. It is obvious that the shortage and high cost of credit discourage the small farmer from taking initiative and so aggravate the serious effects of the agrarian situation.

A significant feature of the Indonesian banking system which has an undesirable influence on capital formation is the reluctance of the bank institutions to increase the saving rates to a reasonable level (a feature partly to be explained with some religious prejudices against interest rates). In 1954, village loan institutions still existed in West Java which asked for high "administrative fees" for the loans, but did not pay a single penny as interest for savings. The interest rates for savings of the People's Bank of Indonesia in 1958 were as follows :

Common savings	2.64% per annum
Saving deposit for 6 months	3.0%    "    "
Saving deposit for 12    "	4.0%    "    "
Saving deposit for 36    "	5.0%    "    "

These rates are very moderate and could hardly provide much encouragement for saving under the prevailing conditions in Indonesia. The considerable increase in both the number of depositors and the amount of deposits in the Peoples' Bank of Indonesia during the last few years, as shown in the table below, is no proof of increased saving. It can be explained by the fact that the anticipated forced closing of many foreign banks, mostly Dutch, which actually took place in December 1957, caused depositors of these banks to transfer their savings to the Peoples' Bank of Indonesia and likewise induced commercial companies to transfer a considerable part of their funds to this bank.

#### PEOPLES' BANK OF INDONESIA

<i>Year</i>	<i>Balance of Deposits at the End of Year</i>	<i>Number of Depositors</i>
1956	Rp. 736,326,000	167,943
1957	Rp. 1,252,736,000	206,467

To give an idea about the credits granted the following figures for the year 1957 may be mentioned:

TABLE II  
AGRICULTURAL BANK CREDITS, 1957

<i>Name of Bank</i>	<i>Granted Credit</i>		<i>Particulars</i>
	<i>Persons</i>	<i>Value</i>	
Peoples' Bank of Indonesia	353,181	Rp. 328,014,370	
Village Banks	1,658,473	Rp. 232,563,000	
Village Rice Banks	582,200	Rp. 47,805,000*	* The loan is in the form of paddy totalling 47,805 tons at Rp. 100 per ton.
	2,593,854	Rp. 608,382,370	
Bank for Farmers and Fishermen via 17 institutions		Rp. 33,058,140	
		641,440,510	

Cooperative credit is granted by (1) Thrift and Credit Societies, (2) Consumer Cooperatives, and (3) Production Cooperative Societies. These cooperatives are financed partly by initial savings, forced savings, and voluntary savings. The decisive organizational support to the societies is extended by the Cooperative Service which is a supervisory and advisory governmental institution without any authority to grant credit. The Cooperative Service, however, functions as an intermediary to obtain the necessary capital from other governmental agencies for the extension of cooperative activities. For this purpose the government created in 1951 the Institution for Government Credit Grants (Lambaga Djaminan Kredit) which, however, serves not only cooperatives but also private customers.

Since 1950 cooperative provincial banks have been organized in six provinces in Indonesia. Early in 1958 a National Central Cooperative Bank (Bank Kooperasi Indonesia) was organized

with a view to consolidating the cooperative bank business, but because of lack of capital the operations of the bank have been postponed. It is the intention of the government to lend to this bank a maximum amount of Rp. 15,000,000. In the meantime the government grants credit to the cooperatives with the Central Bank as an intermediate. The maximum loan period is five years and the interest rate shall not exceed 10 per cent per annum. Credit grants to the cooperatives are given with this modification that interest paid by members should not exceed 2 per cent per month and that every member is obligated to save (forced saving) a deposit of 10 per cent of the borrowed capital received from the cooperatives. Outstanding loans for agricultural purposes (short term) amounted in the middle of 1958 to about Rp. 26,000,000. Outstanding credit for miscellaneous purposes amounted at the same time to Rp. 38,000,000.

It cannot be doubted that by far the largest part of the credit granted by government banks, cooperatives and money-lenders goes to subsistence farmers, which explains the considerable credit risk. From the point of view of a modern agricultural credit policy these credits are wrongly placed since short-term credit is only of little help to the subsistence farmer, who rather would need a well-conceived policy of agrarian reconstruction including extension, land distribution, land consolidation, migration, and promotion of home industries. In the overwhelming majority of cases such credit is no more than social charity which only prolongs economic suffering. At present Indonesian credit institutions are hardly in a position to extend medium-sized and long-term loans or even cover the short-term market sufficiently because of the slow capital formation. The credit situation could only be substantially improved by generous foreign aid.

A full analysis of the present situation reveals the urgent need for an integrated approach to the agrarian problem of the Islands and the uselessness of isolated efforts. The Javanese peasant's pathetic need for financial support explains his readiness to accept offers of Javanese or Arab entrepreneurs to rent his land and to accept him as labourer for a very small wage on his own soil. In some districts of West Java considerable entrepreneur estates have been formed in

this way and the need for an integrated credit and tenure policy is nowhere more pathetically expressed than in the densely populated districts of Central and West Java.

### CONCLUSIONS

The failure of the Dutch rule to guarantee continued economic and social progress in Indonesia has been obvious. At all events, the economic benefits of Dutch rule have not gone into higher standards of living, but have been neutralized by an increase of population.<sup>21</sup> It can be questioned, however, whether the failure of the colonial system is due to population pressure alone, since the almost monopolistic position of foreign enterprise privileged by a combination of legal rules and administrative practices prevented the establishment of an economic and social balance. The pressure of complete economic dependence was in the long run the deciding factor responsible for the negative result.

Indonesia today is a nation on the way to economic independence. The goal may be reached in a not too distant future, provided that the production of food and export crops is soundly balanced, and that the economic and social aspirations of the people can be fulfilled. It is doubtful, however, whether a better balance could be achieved by nationalizing the economic concept of the colonial system, since a mere change in management will not bring about the economic and social emancipation of the Indonesian people.

Nationalization may be fair and just and is relatively simple, but it is not the cure-all which can change the proportions, the rhythm and the meaning of an economic system which will remain short of social justice and incentives for the bulk of the people even if the foreign economic sector is nationalized. Problems of economic and social growth are more complex and have to be solved according to their own laws and not by schemes designed for the very different purposes of the colonial system. In order to develop an independent economy with a new social spirit, a very different agrarian system must be introduced, based on new values and directed towards new objectives. High export figures remain desirable, but

<sup>21</sup> A. Vandenbosch, *The Dutch East Indies*, p. 15.

should not have the same priority as the economic and social emancipation of the peasant. The claim of the Javanese peasant for land has to be translated into economic reality through an agrarian reform in the broadest meaning of the word. It must be a break with the colonial past with its plantations and export priorities and ought to bring about increased levels of living, a regeneration of the village community and sound settlements on the Outer Islands.



## CHAPTER IV

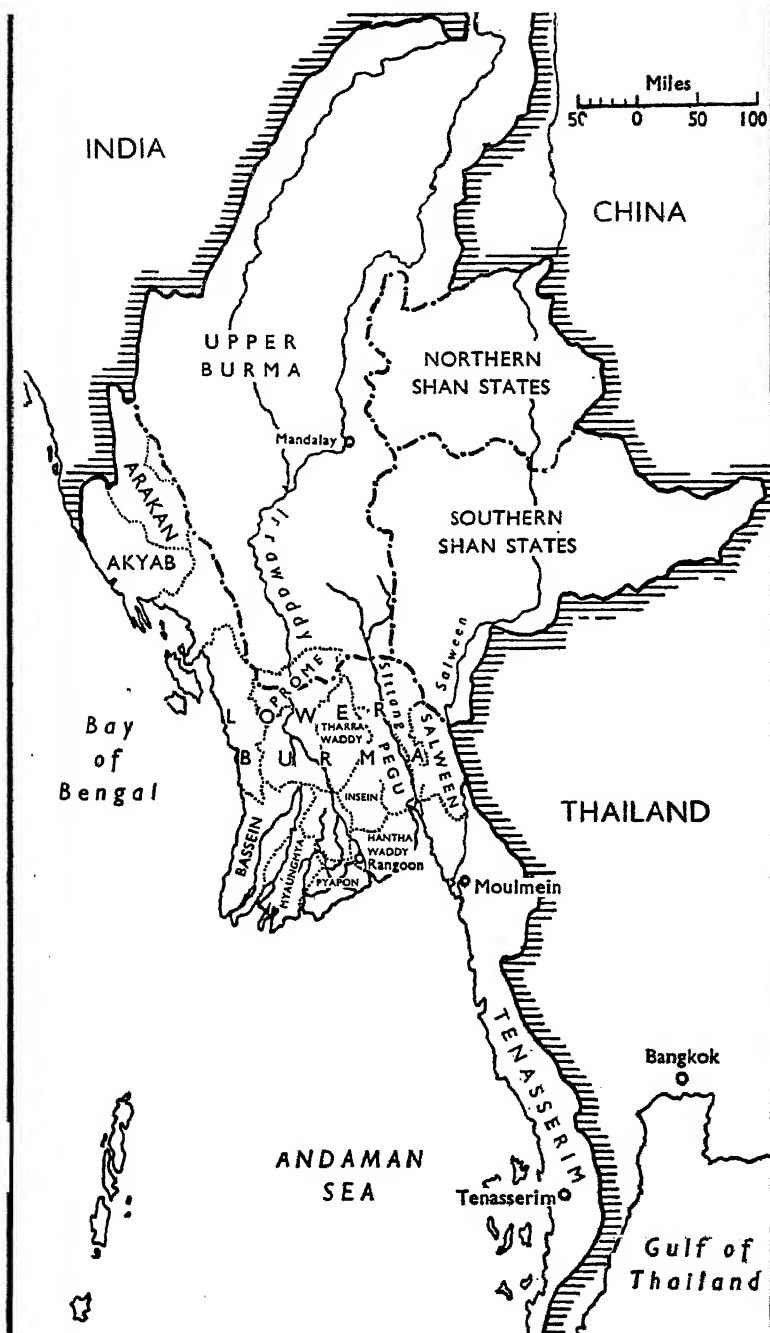
# UNION OF BURMA

### INTRODUCTION

THE economic development of Burma has been different in many respects from that of Java. While the Dutch in Java protected the peasants' property rights to the soil, to a certain extent, the British in Burma observed a policy of laissez-faire that finally resulted in an unparalleled concentration of ownership in land. While Java's development is marked by increasing population pressure, Burma is still a country with vast areas of agricultural wasteland. Political and economic dependence created in Burma the typical colonial conflict with its social and racial aspects, which were further complicated by the immigration of large numbers of labourers from India who were urged by the colonial administration to participate in the development of the fertile plains of Lower Burma.

The British administration took over Lower Burma more than a century ago (partly in 1824, partly in 1852). The greater part of this area then consisted of large tracts of sparsely settled wasteland in contrast to the densely populated Upper Burma with a highly complex, though not rigid, social organization. As a result of a series of devastating wars in the middle of the eighteenth century, only limited groups found it possible to cultivate cotton in the jungle as shifting cultivators in small scattered clearings.

The revolutionizing factor in the development of Burma was not British rule as such, but rather the opening of the Suez Canal in 1869, which made it possible to sell tropical surpluses on the Western market. But British rule established the political and economic conditions needed for the exploitation of this new trading opportunity, and thus the basis for Burma's adjustment to the expanding world economy. In the years following the opening of the Suez Canal large-scale rice production was developed in the delta region of Lower Burma, also called the Delta Land. Long before the British



finally took over Upper Burma (1886) a stream of individual immigrants had gone from there to settle in the Delta Land. Later followed a well-organized, large-scale Indian immigration.

Contact with Western economy strongly influenced the social organization in the Delta Land. Whereas the traditional economic and social life of the Burmese people had been mainly feudal and based on the tradition of the village economy, the new economic setup in the Delta Land became individualistic by exalting freedom of contract and enterprise. The British school of economic liberalism applied its principles to this remote part of the world. Individual property displaced family property, and imported superior manufactured commodities displaced the original local handicrafts. Land became a commodity and credit arrangements involved first the people and later the soil. The new immigrant villages in Lower Burma were composed of individuals and no longer of clans and groups, and the headman of each village had jurisdiction over all its residents. Thus, the geographically based administration displaced the ancient tribal one, a fact which has contributed in large measure to social rootlessness and confusion during a period in which a new and stable social system had not yet been developed.

It cannot be denied, however, that British rule was highly successful in opening Burma to world trade. Burma, until 1937 an integrated part of India, became the world's greatest exporter of rice; in 1957 the rice export amounted to 1,868 million metric tons. This development was made possible by an efficient flood control in the Delta Land which in less than one hundred years increased the rice acreage from 1 to almost 13 million acres, and so transformed it into one of the world's most productive rice areas. Moreover, Burma also became an important exporter of timber (teak), petroleum, and valuable metals. Seen from a purely technical point of view the development of Burma's economic resources was a first-rate performance.

Foreign investments (partly in agriculture and partly in oil, mining and lumber) determined the colonial development in Burma. In the years between the two World Wars they were almost tripled. Dividends averaged 20 per cent or more on stocks outstanding and the remittances of commercial profits

were extremely high. Ninety per cent of the total foreign investments were British-controlled. Moreover, extremely large investments were held by the Chettyars and other Indian moneylenders who actually financed the expansion of the rice economy in the Delta Land, but were not considered "foreigners" in Burma until the separation from British India in 1937. At present, foreign investments are maintained on a limited scale in oil, mining and lumber, while they have been more or less abolished in agriculture.

Colonial development was concentrated in Lower Burma, which consists of the Delta Land around the Irrawaddy, Sittang and lower Salween rivers, and the Arakan region. Agriculture here became largely commercialized and soon took on the typical characteristics of large-scale production and minute division of labour. An almost unlimited supply of land, security of rainfall and the concentration on a single crop permitted a division of labour allotting each part of the production process to a different man. Initially, this type of organization was made possible by an abundant supply of cheap labour flowing in from Upper Burma and South India. It was supported financially by easily borrowed capital, and for many decades land ownership was represented largely by stocks and shares.

Conditions in Upper Burma were greatly different: Here a stable population continued cultivation under more traditional conditions. The Chettyar moneylenders who provided most of the capital for developing the Delta Land feared the risks of farming in Upper Burma because of the less dependable rainfalls, the less fertile soil and the frequent crop failures. Thus, Upper Burma owes to its relatively unfavourable natural conditions its more stable social development, free from the disturbances of an unbalanced commercial economy. During the entire colonial period it remained an area of small independent holdings yielding a variety of crops (rice, red millets, sesamum, cotton, beans, groundnut) that insured the farmer in a problematical climate against a total crop failure.

As in other dependent areas, Burma's industrial development was retarded but in the post-war period some manufacturing was added to the existing processing and extracting industries. The large imports of cheap consumer goods in the

past crippled the local handicrafts and delayed the development of local manufacturing industries. The dependence on the Indian market for rice exports (one million tons before the war) prevented the imposition of protective tariffs against cheap Indian-made consumer goods.

War, Japanese occupation, inflation, and independence have done away with the most pressing burden of the past: the indebtedness of the peasants to the Chettyar moneylenders. Though war and occupation have damaged Burma's economy severely, the early post-war recovery has been good and encouraging. As early as 1947-48 Burma's national income (as measured by estimated gross domestic production) amounted to 72 per cent (1938-39 = 100) of the pre-war level, an increase of almost 11 per cent against 1946-47. In the same years the total acreage increased by almost 2 million ha., and agricultural production rose from 56 per cent to 77 per cent of the pre-war level.

The following years, however, were marked by militant political unrest, partly communist and partly tribal, and as a consequence Burma's economic development was interrupted again. In more recent years the government has won the strenuous up-hill fight and has gained increased economic and political control based on a programme of social welfare and Buddhist revival. In 1953-54 agricultural production reached 82 per cent, and in 1956-57 even 95 per cent of the pre-war level.<sup>1</sup>

In spite of all political difficulties the government of Burma understood from the very beginning that the only successful approach to the abolishment of the inherited colonial economy would be the establishment of a welfare state (Pyidawtha—Happy Country). The abatement of economic inequalities and injustices was recognized as the most effective means of checking the spread of communist movements. In spite of many difficulties, several 100,000 acres have been reclaimed, resettled and replanted during the last years, rice export figures are mounting, and new industries have been put into operation. The economic policy planning was particularly concerned with land tenure and agricultural credit, since the great difficulties of the pre-war economy were in those fields. To a considerable

<sup>1</sup> *Economic Survey of Burma*, 1957, p. 3.

extent, therefore, the plans and efforts of the Burmese government must be understood and evaluated in terms of achievement or failure in agrarian reform.

#### POPULATION AND LAND UTILIZATION

According to the new census of 1952-53 taken with the aid of the United Nations Technical Assistance Administration, Burma had a population of 19,200,000, of which more than 50 per cent live in the Delta Land, 30 per cent in Upper Burma and the remainder in the Shan States in the east, or in other tribal territories on the western, northwestern, and north-eastern frontiers. Today, the population may well have passed the 20 million mark.

About 80 per cent of the gainfully employed are engaged in agriculture, while only about 150,000 work in factories, mostly in extracting and processing but also in the few new industrial plants (jute mills, pharmaceutical factories, silk-reeling plants, etc).

The total area of Burma is about 261,000 square miles, of which some 100,000 are within the tribal territories. Generally speaking, the density of population is not considerable and is lower than in the other countries of the region. About 55 per cent of the population lives in areas with a density of less than 150 per square mile, 35 per cent in areas with a density between 150 and 300 per square mile, and only the Delta Land and the plains along the rivers are, for the most part, densely populated. In recent years there has been a steady increase in acreage, after the decline during war and occupation. In 1955-56 almost 17 million acres were under cultivation (1940-41 : 19.2 million). The area of agricultural land still waiting for cultivation approximately equals the cultivated area, but almost 40 per cent of the total area of Burma is not suitable for cultivation. The immediate irrigation expansion programme of the government for 1952-62 includes twelve projects which will provide 2.1 million acres of additional irrigated land including 1.9 million new acreage.\*

\* Frank N. Trager, *Building a Welfare State in Burma*, 1948-1956, Institute of Pacific Relations, New York, 1958, pp. 47 f., who questions, however, if the project is practicable in terms of costs and manpower.

Most of this acreage is in Upper Burma, where rainfall is not as dependable as in the Delta Land.

Almost two-thirds of the cultivated area is planted with rice. The total production in 1957 was 5.8 million metric tons, which is more than 1 million tons less than the average production in the period 1934-38, but almost 2 million tons more than in 1946-47.

The particular type of colonization in the Delta Land greatly influenced the system of land tenure and eliminated independent peasant proprietorship in most of the commercialized area. Land ownership concentration with all its consequences, therefore, became the central agrarian problem. Only in the older, less commercialized districts north of the delta, in the Tenasserim and Arakan division, small colonies of economically independent peasant proprietors survived. As a result of subdivision by inheritance, however, their holdings often became extremely small (frequently less than one acre) and hardly produced a satisfactory subsistence for a family.

#### THE LEVEL OF AGRICULTURAL CULTIVATION

Levels of cultivation in Lower Burma are not higher than those generally prevailing in Southeast Asia, though the Delta Land is endowed with good climate and soil and can be easily cultivated. Irrigation is no problem since the rainfall is dependable and crop failures are almost unknown. Consequently, the cultivator is not so easily inclined to introduce new varieties, improve implements, or use artificial fertilizer in spite of considerable urging by the Agricultural Department, but it may be noted that in 1956-57 the paddy yield per acre for the first time exceeded the pre-war level by 7 per cent. In less privileged Upper Burma, on the other hand, the farmer is more progressive and accepts wholeheartedly any improvements which he can possibly afford.

In all of Burma an area of only about 1 million acres is sown more than once, which means that around 95 per cent of the farmland produces only a single crop on the basis of present monsoon cultivation. In the Delta Land as in almost all of Southeast Asia, millions of working hours are lost by lack of diversification. The cultivation of rice requires only about

six months, from June to January, and handicrafts are no longer a source of gainful occupation.

Mechanization of agriculture in Burma is still far off and cattle and water buffaloes remain the working animals in the delta. In the post-war years, however, agriculture has benefited by the introduction of a better breed of cattle to replace the war losses and of improved strains of rice. Artificial fertilizer is used only sparingly, but yearly floods carry silt which is deposited on the land, helping to restore its fertility. The farmer, however, has yet to learn to distribute the silt, which is often unevenly deposited and does not reach the centre of the plot. This could be remedied by digging channels for the silt-laden water. It is to be hoped, however, that the agrarian reform, which will provide greater incentives for the peasant, will also prepare him for the gradual adoption of modern agricultural techniques. Improved agricultural methods, use of fertilizer, mechanization, double cropping, drainage and flood-control would increase and even double agricultural production within a relatively short time.

#### INDEBTEDNESS AND OWNERSHIP CONCENTRATION— TENANCY UNDER COLONIAL RULE

All over Southeast Asia credit and indebtedness are urgent problems, which are the natural result of Western economic penetration, of the elimination or crippling of native handicrafts and of the lack of economic diversification. But in Burma these problems have reached unusual proportions, and their severity and devastating effect explain to a large extent the government's difficulties and reactions. Since the mechanism of colonial expansion in Burma operated actually unrestricted, the people were forced either to leave their land or to become heavily indebted to an alien moneylender group.

The Delta Land was not developed by the traditional imposition of a colonial economy upon an existing local economic system, but rather by the actual organization *de novo* of a pioneer colonial economy. Taking this into consideration, certain features in the Burmese picture may be more easily understood. The colonial administration had to deal mainly with immigrants, and not with a stable population. Its task



was to achieve "the blending, harmonious or otherwise, of three distinct economic systems; the original Burmese economy, the economy of the Chettyar moneylenders, and the important capitalist economy of Western nations".<sup>3</sup> The immigrants from Upper Burma and South India lacked the needed capital to develop the Delta Land in a manner commensurate with the opportunities offered by an expanding world trade. This brought about the unique combination of British administration and Indian moneylenders, mainly represented by the Chettyars. British law guaranteed the Chettyars that loans secured by mortgage (an instrument unknown to local custom) would be honoured and protected by British courts. Confident in the law and order of British rule and anticipating the economic upswing of Lower Burma, the Chettyars expanded their credit system over the entire Delta Land, following and even anticipating the expanding cultivation. Within two generations the Chettyars lent out an estimated equivalent of U.S. \$ 270 million, two-thirds hereof on the security of agricultural land. By 1936 the Chettyars owned two and a half of Lower Burma's 10 million acres of rice land, and had heavy mortgages on an additional 10 to 20 per cent.

As the Chettyars were professional moneylenders and not agriculturists they took full advantage of the economically unprepared population. Their rates of interest ranged from 15 to 36 per cent annually, averaging 25 per cent. This was often lower than the rates charged by the local Burmese moneylenders, but it was extremely high considering both the first-class security covering the loan and the normal profit rate of cultivation.

In spite of the tremendous amounts involved, the Chettyar credit system was far from being economically efficient. Probably on account of technical banking considerations the Chettyar subagents in the villages were changed every three years. Consequently, long-term loans were rarely granted, and loans which should have been extended over periods of from ten to twenty years—considering the backward economic development of the area—were granted for a term of three years only. This proved prejudicial to agricultural efficiency,

<sup>3</sup> J. Russel Andrus, "Three Economic Systems Clashed in Burma", *Review of Economic Studies*, London, February 1936, pp. 140 ff.

since the Chettyar made his calculations exclusively with regard to the amount of security at hand and not with regard to the increase of agricultural productivity. The inexperienced farmer frequently would find his credit exhausted just when the land was about to repay the initial expenditures. Inevitably he was forced to default on his debt and lose his property.

Too much lending, rather than too little, is generally the greatest drawback of moneylender credit. The Chettyar agent was seldom interested in a stable, prospering clientele and was, as a mere moneylender, concerned only with securities and interest. He seldom cared about the economic use of the money he lent out, and frequently encouraged his clients to continue borrowing as long as they could give additional security. It has been estimated that only a fraction of the money lent on Burmese rice lands was actually used to improve the holdings or to purchase additional land.

This system became detrimental for the economic development of the Delta Land, cultivated by people who were unaccustomed to deal with large sums of money and inexperienced in the use of credit. Consequently, the most recently cultivated lands were usually the first ones to pass out of the hands of the original owners. The rice boom in the beginning of this century, when the price of rice increased by 50 per cent within only eight years, made the farming population still more susceptible to the Chettyar credit system. It must be stressed, however, that the main reason for its success was the fact that it was able to operate unrestricted and uncontrolled in the entire region.

Expressed in statistical figures, the history of the colonization of Lower Burma showed an almost uninterrupted loss of land by the Burmese farmers. The rice booms in the beginning of the century and during and after World War I did not stop this trend. The land-ownership concentration was almost exclusively in favour of foreigners, mostly Chettyars and Chinese. From 1915 to 1930, 1,300,000 acres in the Delta Land were lost because of indebtedness, and by June 1931 one-third of the cultivated area was in the hands of non-agriculturists. This detrimental development increased during the depression when the collapse of the rice price caught the Burmese farmers

completely unprepared. A wave of foreclosures swept the country, leaving the foreign moneylenders in control of the best part of the land. Between 1930 and 1937 the share of the Chettyar in the thirteen principal rice growing districts of Lower Burma increased from 6 to 25 per cent. In 1938-39 non-agriculturists occupied 47.7 per cent of the agricultural area in Lower Burma (as against 14.2 per cent in Upper Burma) of which almost 40 per cent was held by absentee landlords. In fact, in 1939, 59 per cent of the land in Lower Burma was let to tenants at fixed rents.<sup>4</sup>

This wholesale liquidation of the farming class of Lower Burma was an integral part of the process of concentration. The Census of India 1931 showed that between 1921 and 1931 the group of male tenant cultivators increased only by 13 per cent while the group of agricultural labourers showed a 60 per cent increase; in the same period the group of male owners decreased by 20 per cent and of female owners even by 64 per cent. This very unfavourable development took place in a period of relative prosperity and no figures are available for the years of depression when the most rapid ownership concentration took place.

Landlordism, in general unfavourable for agricultural and social development, had particularly negative effects in Lower Burma where in some districts 80 to 90 per cent of the landlords were non-agriculturists, mostly moneylenders without any agricultural knowledge and only interested in the collection of rents. This was further aggravated by the competitive pressure of the Indian immigrants, whose lower living levels enabled them to rent land at higher prices than the Burmese farmers. Ever since 1876, the British government and British and Indian employer groups had favoured immigration from India as a source of cheap labour for the development of the Delta Land, since immigration from Upper Burma was not fast enough. Indian competition for land steadily increased the contract rents. In the years before the war parts of the Delta Land were so heavily rented that the economic rent level was reached or often exceeded. This, of course, was prejudicial

<sup>4</sup> J. Russel Andrus, *Burmese Economic Life*, Stanford, 1947, p. 70, states that these figures are still likely to be too favourable, since many "statistical" agriculturists are in reality non-agriculturists.

to efficient cultivation, since the tenants frequently left their holdings immediately after their contract period of one year had expired, pressed by the burden of debt, or they were evicted after two or three years.

The colonization of Lower Burma did not establish village communities with fixed moral standards, but created a migrating tenant class, no longer in contact with their own community and thus deprived of its controlling influence on their social behaviour. Isolated from the social order, they lost the normal restraints which mark life in a decent community.

Ownership concentration, however, did not result in large-scale agriculture. The landlords preferred to lease their land in parcels of 15 to 30 acres to tenants whom they themselves financed by loans at 1.75 to 2.50 per cent interest per month. Moneylending in the Delta Land thus became a corollary to land owning, and generally was the main source of income for the landlord. The average cultivator, whether a small owner or tenant, was forced to part with the bulk of his crop immediately after harvest and to meet his commitments directly from the threshing floor. In general, the tenant cultivator was heavily indebted to the landlord, while the owner cultivator had to borrow at usurious rates from the Chettyar or traders. Such an economic system inevitably prevented the peasant from working his way up the social scale by saving enough capital to acquire and hold property or from leasing land under secure terms of tenure. This largely contributed to the serious agrarian dissatisfaction in pre-war Burma.

#### AGRARIAN LEGISLATION IN POST-WAR TIME

Although the British administration in principle had always favoured peasant proprietorship rather than large estates, the trend toward the elimination of peasant ownership became apparent already at a very early stage of colonial rule. Some legislative acts, such as the Land Improvement Loans Act of 1883, the Agricultural Loans Act of 1884, and the Debt Conciliation Act of 1905 stressed the graveness of the situation, but brought little actual relief. Only after serious rebellions the government proposed in a press communique, May 19, 1931,

"to re-examine the very difficult question of agrarian legislation, but that it will be some time before they can come to any conclusions on this controversial matter". Not until shortly before the Japanese invasion in 1941 was legislation passed on land alienation, tenancy and land purchase. It came too late, however, since the process of concentration of ownership rights in the hands of non-agriculturists was so far advanced that a mere legal measure was of little consequence.

The government of the Union of Burma, therefore, was faced with the immense task of reshaping completely the economic and social pattern of Lower Burma which was the result of chaotic colonial capitalism and economic excesses. But even before this objective could be approached the government had to relieve the peasants of the burden of unpaid debts by granting a moratorium and a reduction of the payments due. Rents were fixed at twice the amount of the land tax (which was very low)<sup>5</sup> and the authority to allocate the tenancy of the land was taken from the landlords and given to the local Land Committees. The cost of cultivation, on the other hand, was increased by the Agricultural Laborers' Minimum Wages Act of 1948, which fixed the wages of agricultural workers, who were usually paid in kind, at almost twice the pre-war level.

The magnitude of the post-war agrarian reconstruction becomes evident when taking into consideration the high degree of economic and social oppression resulting from the Chettyar economy and the immense devastation caused by the war. The greatest challenge in the fight for the economic rehabilitation of an entire population became the reorganization of the land tenure system.

Official statistics show that at the outbreak of the war about 34 per cent of the entire cultivated area of Burma was in the possession of non-agriculturists. This figure, however, does not give a true picture of the actual situation, since a large part of

<sup>5</sup> The land tax was not increased during post-war years despite the three or four-fold increase of most prices. State revenues were obtained almost exclusively from the State Agricultural Marketing Board which through price fixation exerted agricultural taxation. The insurgent slogan "no rent, no taxes" made tax collection in newly recovered areas almost impossible.

the cultivators listed as owners of their land were so deeply indebted to moneylenders that, from an economic point of view, they had to be considered tenant cultivators. In the final analysis, both ownership and tenancy were insecure and rents and interest rates exorbitant. This was the background of the Land Nationalization Act which in its final form was adopted in 1953. The main purpose of this law was to abolish landlordism and to establish owner-cultivation. But it was also expected to facilitate the introduction of modern methods of cultivation and initiate a period of rural, economic and social progress.

Since 1953 the implementation of the Land Nationalization Act has been carried out with considerable success. No agricultural land can be mortgaged, sold, or otherwise transferred, fragmented or subdivided without authorization. Rice land, in particular, is being resumed against compensation by the government, with certain exemptions for Burmese farmers who cultivate up to 50 acres of land, for joint and undivided families with more than four adult members, for parentless minors, and for religious institutions. Exemptions are also granted to Burmese non-agriculturist families owning up to 20 acres, provided that their chief member is actually residing in the village area and personally works on the land or supervises cultivation.

The land resumed by the government is distributed in accordance with established priorities to tenants, to agriculturists, who by way of exemption have not specified sufficient land, and to agricultural workers. The normal size of the holding is a *tadanton*, a measure of land which can be worked by one pair of bullocks, but also other factors, such as the number of farmers in need of land, the area available for distribution and the order of priorities are to be taken into consideration. Distribution is to be made to individual families or, in areas where sufficient land is not available, to a number of families collectively.

The government may also resume agricultural land, which by inheritance has come into possession of a person who is a non-agriculturist and is not prepared to work the land as an agriculturist. Transactions in agricultural land either by gift or by sale to non-agriculturists who do not intend to work the

land are prohibited and the person who defies this clause risks the resumption of his land.

TABLE III  
EXEMPTION OF LAND FROM RESUMPTION

<i>Families or persons whose land will be exempted if they satisfy the conditions prescribed in Section 6</i>	<i>Class of land and maximum extent of land to be exempted</i>						
	Pad-dy (acre)	Ya <sup>a</sup> (acre)	Kaing <sup>b</sup> (acre)	Sugar (acre)	Dani	Garden	Rubber
1. Agriculturist family	50	25	10	10	all	all	all
2. Joint undivided agriculturist family	50 above	25 above	10 above	10 above	all	all	all
3. Minor of agriculturist family	10	10	3	5	all	all	all
4. Person of unsound mind	10	10	3	5	all	all	all
5. Non-agriculturist family	20	10	6	5	all	all	all
6. Agriculturist family one of whose member was in continuous possession of agricultural land with effect from any date between 5th January 1948 to 22nd June 1953	20	10	6	5	all	all	all
7. Member of religious order or religious institution	all	all	all	all	all	all	all

<sup>a</sup> Dry upland.

<sup>b</sup> Inundated alluvial land.

Other significant features of the Act are :

- (1) The encouragement given to join agricultural organizations such as cooperative societies and Mutual Aid Teams by making this a prerequisite for the allocation of land.
- (2) The establishment of elected Village Land Committees consisting of seven members working in close cooperation with the appointed District Land Committees which select the village tracts for the implementation of the Act.<sup>6</sup>

The Village Land Committees, which represent the local farmers, are helping to awaken the peasants to economic and social realities and to mature their approach to agricultural activities. They have the authority both to grant exemptions and to resume and distribute lands. During 1958 exemptions were granted to 82,000 agriculturists cultivating an area of around 360,000 acres, while 316,000 acres, i.e., about 45 per cent of the total selected area were resumed, of which 263,000 acres were distributed to more than 37,000 farming families. More than 9,000 acres were allotted to 775 households as state tenants and 1,700 acres reserved for common use of the villages concerned. The remaining 42,000 acres comprise mostly fallow lands which by means of mechanization and irrigation possibly could be made fit for distribution.

The total results of the first five years of implementation of the Land Nationalization Act are impressive. By the end of 1958 a total of 3,346,000 acres out of a calculable area of over 19,000,000 acres had been affected.<sup>7</sup> Altogether 1,418,000 acres had been distributed to 178,000 agricultural households, and exemptions had been given for 1,615,000 acres belonging to 305,000 households. These achievements were effected in spite of great difficulties due to political insecurity and the scarcity of maps and land registers lost during the war.

The final objective of the agrarian reorganization in Burma is the establishment of a cooperative farming system. Great

<sup>6</sup> In 1958, 413 village tracts in 63 townships were selected for the implementation of the Scheme ; an area of 700,000 acres was involved.

<sup>7</sup> The area earmarked for expropriation is estimated at 5.3 million acres in Lower Burma and 1.6 million acres in Upper Burma.



hope is placed in the Mutual Aid Teams, an institution with time-honoured traditions. In 1958, more than 15,000 family heads were organized in 9,114 teams which pool their resources of cattle, implements and labour and do the teamwork as best they can in order to reduce their cultivation expenses and secure a better production. The government has expressed its expectation that the members of these teams will soon reap the benefits of their joint efforts and form primary agricultural societies which will further increase their production capacity.<sup>8</sup>

Every effort is made to avoid a relapse into the former system of land tenure. No form of landlordism is tolerated and the government is deeply concerned with the organization of an effective land administration in order to safeguard the rural economy and the newly established system of peasant proprietorship. Much attention, therefore, is given to the efficiency of the Settlement and Land Records Department.

Tenancy as an institution has no place in the final agrarian pattern of the Union of Burma. Consequently, the Tenancy Act of 1946, the Tenancy Standard Rent Act and the Disposal of Tenancies Act, both of 1948, must be considered as provisional legislation. The actual scope of this legislation was to relieve, already in the transitional stage, the economic burden of the tenant cultivator and to abolish at once the stigma of dependence and servility traditionally associated with tenancy in Southeast Asia. According to the Disposal of Tenancies Act the full substance of ownership rights, i.e., the regulation and control of leases and the management functions, may be transferred to the local Village Land Committee which is also entitled to collect the rents due to the landlord.

#### AGRICULTURAL CREDIT IN POST-WAR TIMES

The elimination of the Chettyars and landlords has deprived Burmese agriculture of the traditional credit sources which, bad as they were, nevertheless fulfilled an important function. To fill the gap a State Agricultural Bank was established

<sup>8</sup> *Burma*, The Eleventh Anniversary, Vol. IX, No. 2, January 1959, Rangoon, p. 51 ff.

in 1953, which by 1958 had more than 800 village branches in twenty-one districts. But still much will have to be done before the 12,000 village tracts of the Union will be adequately covered. In the meantime the Government Agency Department of the Bank tries to serve those village tracts not covered by the Agricultural Bank. The expansion of the banking system would have progressed faster, were it not hampered by political unrest in a number of districts.

The main objective of the State Agricultural Bank is to issue seasonal loans for paddy, groundnut, beans, potatoes, onions and sugar cane and short-term loans for the purchase of cattle; the loans are issued to the village banks and to cooperative societies composed of at least 75 per cent agriculturists. The moral of the creditors seems to be generally good. The Bank Statement for 1958 reports that the paddy cultivators in spite of extensive crop failures have repaid 88 per cent of the loans disbursed. On the other hand, the attitude of the bank management was generous and it freely granted suspension of the repayment of loans for one year, when the cultivator was unable to pay. In the case of partial repayments members frequently got new loans when the unpaid portion of the former credit had been suspended.

From May to August 1957 an amount of Kyats<sup>9</sup> 20.7 million were disbursed as paddy loans in almost equal parts to village banks and cooperative societies. While 93 per cent of the loans to the village banks were recovered only 82 per cent of the loans to the cooperatives were repaid. For sugar cane loans the recovery percentage was far lower, 59 per cent for the village banks and 55 per cent for the cooperatives. The weakness of the cooperative societies as bank clients, however, became quite clear during October–December 1957 by the loan transactions with cultivators of groundnuts, beans, potatoes and onions. Only 43 per cent of the loans to the cooperative societies were repaid as against 82 per cent of the loans to the village banks.

The government, therefore, requested the Bank to stop agricultural loans to cooperative societies from April 1958. Members of the societies were to be served either by existing village banks or by new village banks to be established. How-

<sup>9</sup> U. S. \$1.00 = 4.72 Kyats approximately.

ever, where this is impossible out of organizational reasons, the Government Agency Department is entitled to grant loans to the members of the cooperative societies.

Shortage of capital and of available funds restricts the development of the loan activities of the Bank. They are limited mainly to seasonal loans and cover hardly more than 30 per cent of the gross agricultural lending. But the fact remains that Burma has vigorously attacked its credit problem under difficult conditions and achieved remarkable results, even if the peasant is still forced to turn to private lenders for credit at exorbitant rates of interest.

#### AGRICULTURAL COOPERATIVES

In Burma, as in other colonial areas, cooperative organizations were unable to give more than very limited local relief. Their means compared to the capital of the Chettyars were extremely small and the rapid development in the delta area favoured an individualistic mentality rather than a cooperative spirit. Finally, the cooperatives had to contend with racial, social and economic forces which were superior in experience, tradition and political background. But in spite of the unfavourable pre-war atmosphere for the development of the idea of cooperation, the cooperative societies performed a rather outstanding service and achieved, though on a small scale, a redistribution of land. They acquired titles of lands, foreclosed during the depression, and resold them to the former owners who were members of the organization, frequently at book losses for the central cooperative bank (and finally for the government). In this way, they also restored their reputation in those regions where they had been forced to foreclose many properties during the depression.

In the economic and social climate of Burma today the prospects for agricultural cooperatives have improved. The cooperative movement as a whole covers approximately 40 per cent of the more easily accessible tracts throughout the country. In April 1958 a total of 4,872 agricultural producer cooperatives were in operation mainly as credit and marketing societies, but they also purchased and sold consumer requirements for their members. During the past few years the

Department of Cooperatives has been more interested in consolidating the existing societies than in expanding the movement.

As already mentioned the allocation of loans from the State Agricultural Bank to the cooperative societies was terminated by the government in April 1958, because the financial discipline of the members of the societies was not considered satisfactory. But many producer cooperatives continued to carry on loan transactions out of their own funds, though on a limited scale, in combination with their marketing operations.

It is to be hoped that the large-scale educational campaign for cooperation carried out by training programmes and lectures in government high schools will raise the level of financial responsibility of the cooperatives and so lead to a change in the policy of the State Agricultural Bank. Without Bank support for the credit transactions with their members it will be difficult for the societies to expand or even maintain their marketing transactions on the level of the period January-May 1958, when they were able to market almost 3,350,000 baskets of rice.

#### LABOUR

The process of ownership concentration in Burma, unique in type and rate of advance, turned a large part of cultivators into landless labourers. Until adequate employment opportunities have been created by the full implementation of the Land Nationalization Act, by the expansion of the cultivated area and by the development of industry, unemployment and under-employment will remain significant features of Burma's social and economic structure. Since 1920 the number of agricultural labourers has increased by more than 100 per cent, in some measure because of the large-scale immigration of Indian labourers who frequently entered Burma by crossing the land frontier during harvest time. Racial tension was the inevitable result and for years the Burmese nationalist movement claimed legislative restrictions of Indian immigration as protection for Burmese labour. After the separation from India in 1937 Indian immigration to Burma was put on an annual quota basis, but before the agreement became effective, the war in the Pacific started.

Before the war agricultural labour, both Burmese and Indian, was but loosely organized. Agitation for the redistribution of land, however, found considerable response among the agricultural labourers, of whom the overwhelming majority had lost their land during the last decade and considered themselves more as landless farmers than as agricultural workers.

Independent Burma with its strong social conscience has recognized from the very beginning that the landless agricultural labourer is the social victim of the colonial system, and as such entitled to full rehabilitation. The Land Nationalization Act, therefore, gives some preference to the landless labourer in the course of distribution of agricultural land. Burma likewise was the first country in Southeast Asia to introduce a legislation governing agricultural labour wages (Minimum Wages Act for Agricultural Labour of 1948).

#### GENERAL LEVELS OF LIVING—HEALTH CONDITIONS

It is very difficult to give a well-founded judgment on the general level of living of the Burmese population, beyond the generalities which can be gathered from the recorded facts. There is no doubt, however, that the level of living in Burma before the war, although it had been declining, was higher than in China or India.

Before the war no real shortage of food was ever recorded. Between 1921 and 1931, the occupied agricultural area expanded by more than 3 million acres, or more than 15 per cent, and the exportable surplus increased by almost one million tons. The Burmese, however, did not participate adequately in this development; their share in the national produce decreased in direct proportion to the decline in social status from owner to tenant and from tenant to labourer. The war, which brought large-scale devastation, reduced the level of living very considerably, but in 1956-57 the per capita consumption again reached 77 per cent of the pre-war level.

The social efforts of the government of independent Burma are concentrated on the ultimate goal to provide an adequate level of living for the growing population. But, although the agricultural area is being expanded relatively fast and a

more secure tenure system is being introduced much remains to be done before the population increase can be counter-balanced and the needed substantial raise in the level of living achieved.

TABLE IV  
PER CAPITA OUTPUT AND CONSUMPTION<sup>a</sup>  
(In Kyats at 1947-48 Prices)

	1938-39	1946-47	1947-48	1952-53	1954-55	1955-56
Gross output per capita	302	172	200	205	221	224
Consumption per capita	195	143	163	140	142	141
Index 1938-39 = 100						
Gross output per capita	100	57	66	68	73	74
Consumption per capita	100	73	84	72	73	72

<sup>a</sup> Source : *Economic Survey of Burma*, 1957, p. 7.

Note : The political disturbances and the high rate of population increase depress the per capita consumption. The gross output per capita must increase at a higher rate than between 1954-55 and 1955-56 before the level of living can improve substantially. Some progress has been recorded for 1956-57.

Without a considerable increase of the level of living the general health conditions will hardly improve. The British administration provided health services and a better water supply; but in spite of all efforts neither the tuberculosis mortality nor the high infant mortality has shown any noteworthy decline proving once more the well-known fact that public health reforms alone cannot counteract the effects of a defective economic system. Health conditions in independent Burma have remained almost unchanged. A certain decrease in tuberculosis mortality might have occurred but the infant mortality is still about 195 per thousand and life expectancy does not exceed 31-32 years. A well-conceived health programme is being carried out but its effect will

largely depend on the rate of progressive change in the country's economic and social structure.

#### COMMUNAL DISUNITY

A great political and administrative issue in the Union of Burma is the communal disunity which had marked almost the entire first decade of its existence. The elimination of racial distrust between the 12 million Burmese and the almost 8 million Arakanese, Chinese, Kachins, Karens, Mons, and Shans and their political, economic and social integration is not only a prerequisite for any economic and social planning ; it is, in fact, the precondition for the political integrity of the nation, since racial distrust and unrest are likely to invite secession and political interference from abroad.

British colonial rule was satisfied with the allegiance of the tribal chiefs, who continued to rule their territories as feudatories. The British did not introduce democratic ideas or institutions to the tribal areas and tolerated the absolute authority of the chiefs, provided they complied with the demands of the colonial administration for exploitation of the natural resources of their territories, i.e., of forests and minerals. The political development in the Shan area is an excellent illustration of the communal problem. In 1922, when the dyarchy was introduced in Burma and the people gradually became accustomed to democratic institutions and democratic lines of thought, the colonial government restricted the administrative contacts between the Shans and the Burmese proper and urged the Shan states to federate. This gave the colonial government the possibility to deal with the chiefs collectively, but provided at the same time the institutional frame for the awakening of a distinct Shan nationalism.<sup>10</sup> Separate administrative systems were consequently set up for Burma proper and the Shan states which perpetuated the rift between the Burmese and the Shans. The feudal chiefs retained administrative control on the local level also after Burma had attained independence and remained for several years the most powerful

<sup>10</sup> Josef Silverstein, "Politics in the Shan State—the Question of Secession from the Union of Burma", *Journal of Asian Studies*, Vol. XVIII, 1958-59, No. 1, pp. 43 ff.

and best organized group in the country. Finally, however, they had to give up their administrative prerogative against large compensations and the promise of retaining their prestige position and the ownership of their traditional family lands.

Communal disunity was not created by the government of the Union. It had been nourished for years and was bound to become a racial issue when the colonial rule was withdrawn. The Union, deeply concerned with problems of national unity and integration, gives the highest political priority to the entanglement of its frontier problems. This policy includes the economic and social emancipation of the people from a feudal order and their gradual adjustment to economic progress.

Some of the minority groups, particularly the Arakanese, the Shans, and the Karens, are bitterly opposed to Burmese domination. In the case of the Karens the opposition led to an armed revolt which actually strengthened the communist rebellion. It even resulted in the formation of local armies, a recurrent political phenomenon in Burma's history and a most dangerous legacy of the past.<sup>11</sup>

The existence of strong minority groups with their very different concept of economic and social life calls not only for administrative attention and political tact, but also for political wisdom and a high degree of tolerance and flexibility. The emphasis must be on the educational approach, combined with an effort to win the confidence of the minorities and on the speedy solution of the grave structural problems in the frontier territories.

The Democratic Local Administration Act of 1953 has established the framework for a peaceful co-existence of all the races within the Union, but it can only work if its implementation is inspired by a policy of persuasion and fulfillment. Unless this is achieved, the Act will mean little more than a political gesture. The final success of the Union's policy in the communal field will depend on the extent to which the ideology of Pyidawatha will conquer the people in the territories. To make them understand and accept this ideology may prove more difficult than to defeat an insurrection, but will in turn create the final unification of the country.

<sup>11</sup> Geoffrey Fairbairn, "Some Minority Problems in Burma", *Pacific Affairs*, December 1957.



## CONCLUSIONS

Any analysis of the economic and social development in Lower Burma during the past seventy years must first of all bring out the contrast between the highly successful development of the country's economic resources and the social disintegration of the farming population under colonial rule. It is easy to overemphasize either side of the picture, and it is equally simple, though misleading, to put both features in a fixed relationship and to assert that they are dependent on each other and that the misery of the population was the price to be paid for the development of the country. Continuous economic development cannot be built on human sacrifices of such dimensions, and economic progress has to be measured in terms of social achievements.

Another contrast in the colonial development of Burma seems to be no less important—the difference in the economic and social status of the population on the fertile, highly commercialized plains in the delta area and that of the less privileged but more stable people of Upper Burma with their diversified agriculture. Of course, commercial agriculture also entered Upper Burma and the farmers there have become more and more integrated into the market economy. The process of commercialization in Upper Burma, however, was not pushed by speculative interests but was the result of a natural organic development. It did not, therefore, lead to disintegration, but rather to a higher economic and social level of living. The variety of cultivation not only guaranteed an average level of living throughout the years, but kept the people comparatively “free from the reproach of undue conservatism which is so often levelled at farmers”.<sup>12</sup> In contrast with the Delta Land, the peasants in Upper Burma were more open to new methods and crops, and produced surpluses for export without disastrous effects on their farm economy. It has been asserted by students of Upper Burma that they have benefited greatly by the introduction of the groundnut crop, and that many parts of the dry zone, which used to be miserably poor, are now rich in “gilded pagodas, well-founded monas-

<sup>12</sup> J. S. Furnivall, *An Introduction to the Political Economy of Burma*, Rangoon, 1931, pp. 98-100.

teries, brick houses, gay clothing, a varied diet, and other signs of wealth".<sup>13</sup>

The contrast between Upper Burma and the Delta Land indicates the ways in which areas with different productive potentialities developed from domestic to commercial agriculture. Lower Burma, more privileged by climate, soil and investments, became the centre of destructive landlordism with a distressed and unstable population, while less favoured Upper Burma developed a more balanced economy. This contrast is of value not only as a basis for judging colonial development but equally as an important indication for sound economic planning.

Differences in productivity, of course, have to be taken into consideration, especially the unparalleled development in the Delta Land. But Lower Burma's rice economy had to carry the weight of a distorted tenure system with its fatal social and racial tensions, liabilities, which more than balanced the great economic achievements. Society in Lower Burma had been organized for exploitation rather than for decent living, for acquisition rather than for production, and it had to pay a very heavy price.

In the first edition of this book, it was pointed out: "The solution of the land problem remains the most urgent task . . . No doubt a large-scale effort by the new Republic of Burma will be needed if the task of restoring the rights of a people to its native soil is to be solved in a legal way. Indeed, the basic problem of redistributing the land must have priority over all other political and economic problems of postwar reconstruction. A resettlement policy will have to be initiated in gigantic dimensions on the scale of the expropriation of the native farming class. Anything less would not be an effective solution for the economic and social problems of the country." Since then the government of the Union of Burma has initiated such a policy in order to reshape the economic and social structure of the country. From the very beginning it has been focussed on the solution of the land problem. In spite of political difficulties far beyond the control of the government, the implementation of the programme has been carried on vigorously and, in spite of some technical deficiencies, with

<sup>13</sup> J. S. Furnivall, *op. cit.*

considerable success. The agrarian reform has been closely associated with a gradual expansion of the agricultural area and with an overall educational campaign to awaken the people to their economic and social responsibilities.

The pessimists have been wrong. J. S. Furnivall's famous comment after the first five years of Burmese independence,<sup>14</sup> that he found only *one* solid accomplishment, actually a miracle—"it has survived"—was a great understatement. In spite of all administrative shortcomings, political confusion, and deficiencies in planning the laudable achievement of the Union of Burma lies in the fact that it has vigorously written off the economic concepts of the colonial past and is seriously attempting to remedy the defective structure of its rural society.

It is true that the population distribution is far more favourable in the Union of Burma than it is in other Asian countries, and that the rice boom to a large extent supported the work of reconstruction. But it is equally true that only the generous fulfillment of the promise to redistribute the land enabled the government to confront successfully its external and internal enemies and to mobilize the energies of the nation.

The Burmese recovery, indeed, is no miracle and is not even a secret: it is based on the honest implementation of a well-conceived agrarian legislation. Fortunately, Burma's recovery is not affected by the present political split in the party which has founded the state and still carries the government, since full agreement exists on the great issues of economic and social reconstruction; even the military government, which in the beginning of 1960 was replaced again by an elected administration, announced its adherence to the principle of land nationalization.<sup>15</sup>

<sup>14</sup> J. S. Furnivall, "Burma: Past and Present", *Far Eastern Survey*, February 25, 1952.

<sup>15</sup> Under the military government, the whole complex of land nationalization was subject to a re-examination by a special committee with the object of strengthening the administrative efforts.

## CHAPTER V

# FEDERATION OF MALAYA

### INTRODUCTION

THE Federation of Malaya became a sovereign state within the British Commonwealth in 1957 and is the youngest politically independent country in Southeast Asia. While still a British colony it was called "British Malaya", and consisted of the "Straits Settlements" (Penang, Malacca, and Singapore); the "Federated Malay States" (Perak, Selangor, Negri Sembilan, and Pahang); and the "Unfederated Malay States" (Perlis, Kedah, Kelantan, Trengganu, and Johore). On February 1, 1948, an intimate political association was established under British protection and supervision between the Federated and Unfederated Malay States and the British Settlements of Penang and Malacca, which became the forerunner of the new state. The Island of Singapore, the biggest port in Southeast Asia, has remained as a separate constituency within the British Commonwealth.

Though the old division into Federated and Unfederated Malay States was abolished officially in 1948, it will have to be recalled in this study, since it reflects a historic and economic development which is of importance for an analysis of the basic features of the agrarian structure and changing land policies in Malaya.

The extent of Great Britain's political control in Malaya was always commensurate with the degree of Western (but also of Chinese or Indian) economic penetration. British influence, thus, was least effective in the Unfederated Malay States, considerably strong in the Federated Malay States and most outspoken in the Straits Settlements, the economic centre of Malaya, which might help to explain the fact that Singapore, the great foreign trade centre, has not become an integrated part of the independent Federation.

### ECONOMIC DEVELOPMENT AND IMMIGRATION

Population pressure and maldistribution of population,

common in most areas of Southeast Asia, are less urgent problems in the Federation of Malaya. But instead, it has the problem of plural population patterns as a result of the immigration policy of the colonial administration. An influx of Chinese and Indian labour for the development of the rubber and tin industries was encouraged by the colonial authorities, since the Malay population preferred to remain in subsistence farming and showed but little interest in becoming wage earners. The volume of immigration during the last decades before the war, therefore, was directly proportionate to the development of the export productions.

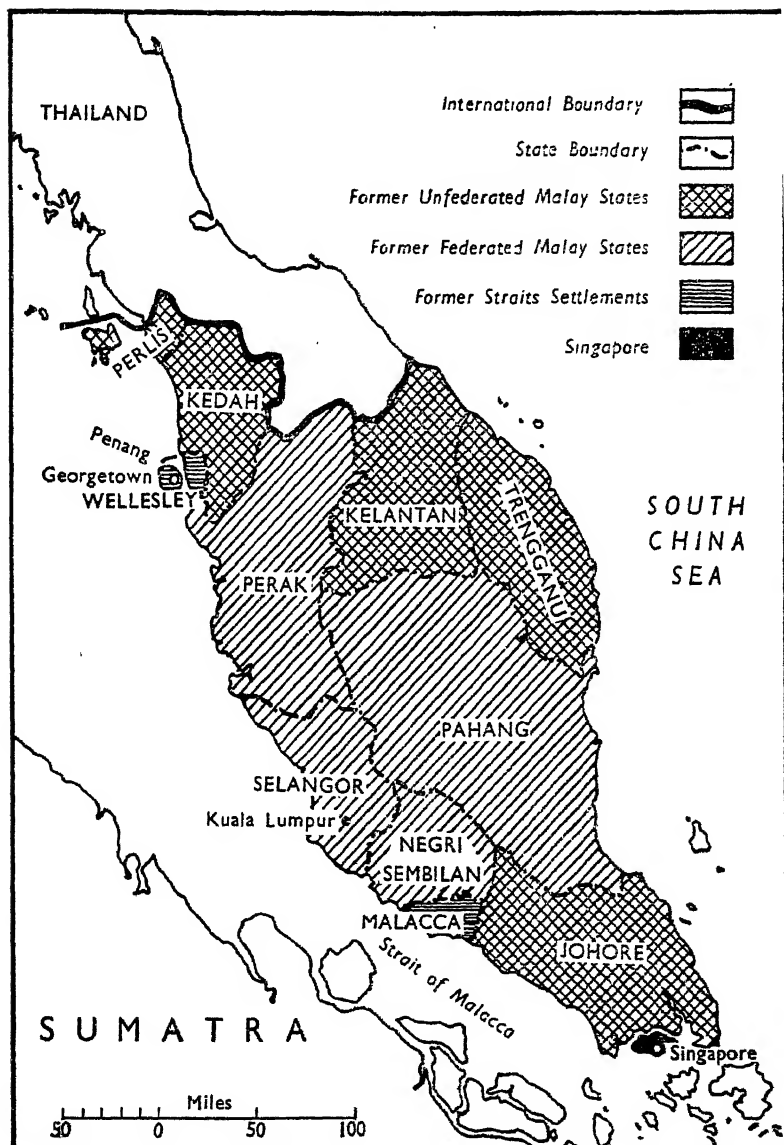
TABLE V  
THE POPULATION OF MALAYA (INCLUDING SINGAPORE)  
ACCORDING TO MAIN RACIAL DIVISIONS  
(in thousands)

	1911	1921	1931	1938
Europeans (all white)	11	15	18	28
Eurasians	11	13	16	18
Malays (all Malaysans)	1,438	1,651	1,962	2,211
Chinese	917	1,175	1,709	2,220
Indians	267	472	624	744
Others	29	33	56	58
Total	2,673	3,359	4,385	5,279

*Source : Malayan Year Book, 1939*

The regional distribution of the population by nationality was intimately related to the degree of foreign economic penetration, and to the gradual advance of rubber plantations from the west coast to the east coast. According to pre-war statistics, only 25.6 per cent of the population in the Straits Settlements, and 34.7 per cent in the former Federated States, the key regions of foreign penetration, were Malays, while the Chinese numbered 59.6 and 41.5 per cent respectively. In the former Unfederated Malay States the Malay population

# FEDERATION OF MALAYA



amounted to 69.6 per cent, and the Chinese to only 21.4 per cent; the corresponding figures for the Indians were 11.9, 22.2, and 7.2 per cent.

The fluctuation of immigration was determined by the export potential of Malay rubber and tin (primarily for the American and secondarily for the European market) and the statistics reflect clearly the critical years of the slump, the recovery in 1934-35, and the renewed decline in 1938.

TABLE VI  
MALAYA : MIGRATION 1929-1938

<i>Excess or Deficit Arrivals from Foreign Overseas Ports</i>			
	Chinese	Malays	Southern Indians (Tamils)
1929	109,801	6,633	1,624
1930	28,586	1,758	— 51,247
1931	— 112,965	— 3,110	— 71,811
1932	— 97,580	— 3,996	— 61,320
1933	— 31,178	304	— 11,175
1934	61,639	3,425	66,666
1935	90,986	— 3,060	33,045
1936	75,801	— 4,326	7,909
1937	180,502	— 3,850	84,365
1938	53,180	— 5,748	— 23,251

The predominantly immigrant character of the population before the war is illustrated by statistics from 1931, according to which less than 57 per cent of the total population in Malaya was born in the country.

Although immigration is no longer a factor of importance the percentage of Chinese in Malaya is still increasing, since the Chinese birth rate is higher than that of the Malays. Altogether the rate of population increase in Malaya ranks among the highest in the world with 3.4 per cent per year.

TABLE VII  
THE POPULATION OF MALAYA AND SINGAPORE, 1953,  
ACCORDING TO MAIN RACIAL DIVISIONS<sup>a</sup>  
(in millions)

	<i>Malayans</i>	<i>Chinese</i>	<i>Indians and Pakistanis</i>	<i>Others</i>	<i>Total</i>
Federation	2.80	2.15	.67	.08	5.70
(Per cent of total)	49	38	12	1	100
Singapore	.14	.86	.08	.04	1.12
(Per cent of total)	12	77	8	3	100

<sup>a</sup> *The Economic Development of Malaya*, Report of the International Bank for Reconstruction and Development, 1955, p. 9.

As a result of industrial development in Singapore and in the larger towns of the Federation a large-scale redistribution of population has taken place since 1950, especially to the urban centres. A considerable part of the Chinese population has been resettled in larger communities as a direct result of the Emergency. At present 25 per cent of the entire population is living in towns of 50,000 inhabitants or more.<sup>1</sup>

The Federation of Malaya is predominantly an agricultural country. 61.3 per cent of its population is engaged in agriculture,<sup>2</sup> which together with fishing and forestry accounted for 40 per cent of the gross domestic production in 1953. Rubber alone accounts for 13 per cent of the total domestic production and for 55-60 per cent of the export crops. The economic development plan for 1956-60 has set aside 23.4 per cent of the total expenditures for agriculture. Nearly two-thirds of this amount will be used for the replanting and new planting of rubber, and more than half of the remainder for irrigation and draining. The Malays are still predominantly subsistence farmers, while the Chinese work mainly as labourers in the mining industry and on rubber plantations, though

<sup>1</sup> T. E. Smith, "Prospects for Future Population Change in Malaya", *Proceedings of the World Population Conference*, 1954, Vol. III, No. 14, p. 233.

<sup>2</sup> Report on the 1947 Census of Population.



they are also engaged in farming and trading. The Indian sector of the population provides the main supply of labour for the rubber industry.

For the last thirty years Malaya's economy has been based on large-scale production of rubber and tin. Especially the rubber production, which depends mainly upon the demand of the American automobile industry, has determined the economic pattern of the country and the racial structure of its population. The export production of rubber has tied Malaya's economy to the business cycles of the Western world, and demanded a fluctuation of the population proportionate to its demand for labour. In 1940, the year before the war, rubber exports had reached the record height of 538,000 tons as compared with 375,000 tons in 1938 and 370,000 tons in 1939. In the years following the war the rubber demand became still greater, and during the Korean war in 1950-51, rubber exports amounted to not less than 700,000 tons. As the world's largest producer of rubber and tin Malaya maintained a key position in the balance of international payments and thus compensated in great part for Great Britain's negative trade balance with the United States. In 1957 rubber exports were still as high as 655,000 tons. Between 1947 and 1957 Malaya contributed 7,235.5 million Malay dollars (one Malay dollar = U.S. \$0.33) to the Sterling pool from rubber and tin exports to the U.S.A.\* During the first post-war decade the possible effects of a competition with synthetic rubber and the world-wide demand for natural rubber were not correctly estimated. The continued demand for rubber and the increased efficiency of the rubber plantations maintained the position of the Malayan rubber production, and high employment could be secured for the immigrant population. In recent years, however, the increased production of synthetic rubber and other uncertainties of the future position of natural rubber on the world market have called attention to the problems of agricultural diversification in Malaya and to the production of oilpalm and other crops as possible alternatives for rubber.

\* Sir Eric MacFayden, Chairman of Rubber Plantation Investments Trust, Ltd., "The Future of Rubber Shares", *Sunday Times*, London, June 30, 1957.

## NON-MALAY INVESTMENTS—INDUSTRIAL DEVELOPMENT

The large volume of non-Malay investments is an outstanding feature of the Malay economy. In 1937 Western and Chinese entrepreneur investments totalled approximately U.S. \$ 575 million, aside from a public debt of about U.S. \$ 60 million. These large capitals were used for the development of rubber and a number of other export products such as copra, palm oil, pineapples, phosphates, coal and gold. Two-thirds of these investments were made by rubber companies, while one-sixth was made by tin-dredging companies.<sup>4</sup> Seventy per cent of the total investments were British and so Great Britain secured a predominant economic control in agriculture and mining, in trade, banking and industry. British enterprises, such as the Straits Trading Company and the Eastern Smelting Company, maintained an actual monopoly for tin smelting in Southeast Asia, sustained by a prohibitive duty on tin ore exports from Malaya, except when destined to be smelted in the United Kingdom or Australia. Of the remaining 30 per cent American investments, estimated at U.S. \$ 23.7 million, were the largest and mainly placed in rubber plantations, trading and shipping, tin mining, and the distribution of petroleum products.

No extensive study of the post-war position of foreign capital in the Federation of Malaya has yet been made, but it is evident that, in contrast to other countries in the area, Malaya has remained as attractive for foreign capital investments as before the war because of its considerable political stability and fair policy towards foreign enterprises. According to the *Financial Times*, London, British investments in 1955 totalled £ 150 million, of which 100 million were placed in rubber and 50 million in the tin industry. In 1953 European estates accounted for 38 per cent of all land under rubber and for about 70 per cent of all rubber estates.

While large investments in the past used to be supervised and controlled by a relatively small staff of Western executives, aided by a somewhat smaller number of Eurasians, more and more companies now train Malaysians for responsible

<sup>4</sup> Helmut G. Callis, *Foreign Capital in Southeast Asia*, New York, 1942, p. 48.

positions. It is quite possible that the pre-war trend towards capital concentration in big joint stock companies with main offices in London will be reversed and that the seat of control will return to companies registered in Malaya. This would, no doubt, please the economic nationalism in the new state but would hardly change the economic facts.

The Chinese business investments, which before the war were second only to the British with an estimated U.S. \$ 200 million, are likely to be still greater today, particularly in the rubber industry where they have taken over some interests of divesting European companies. Technically, Chinese investments cannot be considered foreign, since Chinese influence in Malaya is centuries old and the greater part of the investors have lived in the country for generations. Chinese remittances from Malaya, however, especially to Hong Kong, are still considerable. Chinese capital is mainly invested in tin mining, an industry started by the Chinese in primitively equipped mines long before the British came. Before the war, 36 per cent of the tin output came from Chinese-owned and -managed mines and an additional 11 per cent from mines which were sublet to Chinese. Chinese capital is also invested in rubber plantations, pineapple canneries, saw mills, vegetable growing and fishing. In addition, they hold a strong position as traders and shopkeepers.

As in other dependent countries in Southeast Asia, the export production of raw materials is the basis for the country's economy. In the past manufacturing was practically limited to the production of such consumer goods as would not compete in the local market with imports from Great Britain, and only extracting and processing industries provided alternative employment possibilities. Within the last ten years, however, Malaya's industrial capacity has developed substantially, commensurate with the rate of increase of the working population.<sup>5</sup> A considerable number of secondary industries were established after the war and in 1947 secondary industries absorbed over 9 per cent of the Malayan working population, which is a high percentage for Southeast Asia.

<sup>5</sup> *The Economic Development of Malaya*, Report of the International Bank for Reconstruction and Development, New York, 1955, hereafter referred to as *Bank Mission Report*.

Today, manufacturing enterprises cover nearly the whole market for concrete building materials, one-third of the cement demand and almost all of the soap supply. Small mechanized enterprises manufacture rubber footwear, cycle tyres and tubes, and cotton and rayon yarn.

#### LAND UTILIZATION

The total land area of the Federation is 131,290 square km. (50,700 square miles), of which, however, only 17 per cent is arable land, with an average population density of 283 persons per square km. (133 per square mile). In 1957 a total of 5.4 million acres were under cultivation, of which 69 per cent were planted with rubber, 17 per cent with paddy, and 9.4 per cent with coconut. While the rubber and coconut acreage has remained more or less stable, the paddy acreage has increased by almost 30 per cent since 1937.

Only the western part of the country is developed commercially. Half of the cultivated land is planted with rubber and in some areas, mainly in Perak, Selangor, and Negri Sembilan, a land problem is beginning to develop, though vast underdeveloped agricultural areas are still available in the eastern parts. In 1956 the rubber production utilized 3.5 million acres, of which about 2 million acres were estate-managed and about 1.5 million acres occupied by small holdings. During the Korean war the estate area was expanded by 170,000 acres, but is now slowly declining. Though no accurate figures are available for the area of small holdings, it has been reported that they harvest more than 40 per cent of the total production. While the average yield per hectare of mature rubber is somewhat higher on the estates, a larger percentage of the estate area contains immature rubber.

In the decade before the war the number of holdings under 100 acres remained more or less stable, while the expansion of rubber land accrued to the large estates. This was particularly the case in the states on the east coast where a number of small holdings changed to rice farming after the slump and thereby increased the share of the large estates in rubber farming. This trend towards concentration has continued also during recent years as appears from the fact that, in 1954, 2,489

TABLE VIII  
PRODUCTION FIGURES  
(in tons)

<i>Year</i>	<i>Estates</i>	<i>Small Holdings</i>	<i>Total</i>
1951	328,000	275,900	603,900
1952	341,100	241,500	582,600
1955	351,800	285,300	637,100
1956	350,800	273,400	624,200
1957	369,070	268,020	637,100

*Note:* Small holdings are officially defined as holdings under 100 acres, but only a small proportion is over 25 acres. The great majority are less than 10 acres and a large part of them even less than 3 acres.

rubber estates covered a total of about 2,000,000 acres, of which almost 36 per cent was high-yielding land. The European share in the estates, however, decreased by about 10 per cent, while the Chinese share increased by about 50 per cent.<sup>6</sup>

The concentration of rubber production also continued within the estate group. In 1954 estates ranging from 1,000 to 5,000 acres and more comprised 73 per cent of the total estate acreage, about 2 per cent more than in pre-war times. The effect of this trend, however, is still greater than the figures indicate, since the size group in question also covers the largest high-yield areas.

TABLE IX  
PERCENTAGE OF HIGH-YIELD ACREAGE TO TOTAL ACREAGE

<i>Estates (in acres)</i>	<i>Percentage of high-yield acreage</i>
1,000-1,999	37.3
2,000-4,999	40.5
5,000 and over	45.1
Average of all estates above 100 acres and more	35.9

Of the 579 estates over 1,000 acres Europeans controlled 485 and the Chinese 78. But the Chinese are strongest in the

<sup>6</sup> G. C. Allan and A. G. Donnithorne, *ibid.*, Appendix VI C.

estate group of 100-500 acres, while the Malays constitute the majority of small rubber holders. The frequency of small holdings varies in different parts of Malaya. It is highest in the centre of rubber production (the former Federated States) and lowest in the traditional paddy areas of the former Unfederated States, with the exception, however, of Johore, where rubber small holdings cover about 400,000 acres. The Malays usually have the smallest holdings with an average size of but little more than 4 acres while Chinese holdings average 18 acres. One of the characteristics of land distribution in Malaya is the fact that the Malays control only 22 per cent of the total rubber crop area.

The other main crop in Malaya is paddy, and its production has virtually remained a Malay monopoly. In 1957-58, 900,000 acres were planted with paddy (1940 : 800,000 acres), of which 850,000 acres were wet paddy land (1940 : 730,000 acres). Still haunted by the difficult supply situation of the war period, the paddy acreage increased substantially during the early post-war years from 734,000 acres (1934-38) to 909,000 acres in 1949 and has since then been fluctuating between 800,000 and 900,000 acres. In spite of considerable government efforts it has proved very difficult to stabilize a definite paddy acreage in a country like the Federation of Malaya, where the volume of paddy cultivation to a large extent is dependent on the alternative employment possibilities offered by plantation and mining companies or on the net cash income from rubber and coconut small holdings. Of great importance, however, has been the increase of the yield, which in 1957-58 with 2,190 kg. per hectare was about 25 per cent over the 1934-38 yield and 20 per cent over the 1948-50 yield. More than 75 per cent of the paddy acreage is still located in the former Unfederated States, where also the increase of yield has taken place, due both to better selection of seeds and to the implementation of new government irrigation projects. By and large, however, the actual yield is still dependent on rainfall distribution, and so far only one-half of the total wet paddy area is under reliable irrigation.

The average size of paddy holdings is 4.3 acres,<sup>7</sup> and it has

<sup>7</sup> *Final Report of the Rice Committee*, Government of the Federation of Malaya, Kuala Lumpur, 1956, p. 22.

been reported that more than two-thirds of the total paddy production is locally consumed and only less than one-third is marketed.<sup>8</sup> Over the period 1955-57 the Federation had to import 44 per cent of its rice requirements, and though this is considerably less than the pre-war imports of 69 per cent, Malaya is still far from being self-sufficient in its basic food crop and, therefore, is highly dependent on the rice imports from Burma and Thailand. 375,000 metric tons of milled rice had to be imported in 1957, though production within the country had increased by more than 50 per cent since 1934-38. The high import figure reflects additional domestic consumption due to a considerable population increase.

The insufficient rice production constitutes one of the side effects of Malaya's rubber economy. The paddy acreage is only about 25 per cent of the rubber area, although rice is the staple food of 99 per cent of the population. Rice imports under unfavourable world market trends are a heavy financial burden on the government, and will almost instantly affect the very sensitive rubber and tin economy of the country.

After the depression of 1929, when an immediate food shortage had revealed the risk of an overemphasized production of sensitive export crops, and still more after the war, the administration tried to encourage expansion of rice farming by establishing government mills. Also, minimum paddy prices were introduced not so much to maintain the income of the paddy growers at any given level or to provide an incentive for paddy farming, but rather as protection against sudden drops in paddy prices caused by the manipulations of intermediaries, mills, or merchants. The success of this policy, however, was rather limited, because of the farmers' dependence upon credit and advance payments from Chinese and Indian shopkeepers and because of the increasing insecurity of tenure in the key areas of rice production, Kedah and the Province of Wellesley.

In addition, the government supported the paddy cultivators by the expansion of irrigation facilities. Between 1950 and 1953 access to water was facilitated on 279,000 acres of

<sup>8</sup> *Food and Agricultural Price Policies*, UN-FAO, Bangkok, 1958, p. 81.

existing paddy land and an additional 57,000 acres of new paddy land were put under irrigation, while other long-term irrigation projects were initiated. Double-cropping, however, was practised on only 7,800 acres of the entire paddy area in 1957, a fact which suggests that in future planning greater attention might be given to double-cropping.

Considerable improvement has undoubtedly been achieved by these efforts, but these were not great enough by far to change the rate of food production to any considerable extent, especially not after a renewed rubber prosperity had come to Malaya. Paddy production has not increased much more than has the number of mouths ready to consume it, and the Malays have continued to produce mainly for subsistence and not for marketing.

The process of Western colonization has not only determined the pattern of land utilization but also the racial distribution of the population. The development of the rubber and mining industries pushed the Malay population further and further eastwards into the areas of the former Unfederated States while a dense immigrant population concentrated in the centre of rubber production.

The essential difference to other areas in Southeast Asia, e.g., Java, is the abundance of arable land in Malaya and the almost unlimited reserve of virgin soil waiting for cultivation. Where a land problem was about to develop, as in some rubber production centres, the British administration answered the claims of the Malays for land by establishing Malay reservations. It is doubtlessly true that the reservations could have become an adequate instrument for the protection of the economic status of the Malay cultivators, had institutional credit also been made available.

#### INSTITUTIONAL ASPECTS OF AGRICULTURE IN MALAYA

There are only a few countries in Asia and may be in the world where the institutional factors are as decisive for the economic and social development as in Malaya. Here the complexity of the population problem with its impact on land utilization, the difference in approach to life and values of the various population groups, the magnitude of the Emergency



resettlement problem, and the continued opening of new areas call for a high measure of flexibility, of capacity for adjustment, and of administrative regeneration, all of which represent considerable institutional problems. During the past forty years Malaya's development had proceeded in an atmosphere of constant changes, speedy expansion and restless efforts—neither of which is a sound basis for stable administrative practices. The almost continuous favourable markets of the post-war period provided a broad margin for trial and error.

The land problem in Malaya is different from the land problem in other countries of Southeast Asia, mainly because of the economic rivalry and competition for land between the Malays and the Chinese. While political, economic and social considerations call for a federal directed land policy as an integrated part of a nation-wide development plan, historical and political reasons still tie land policy to the individual states, since also under the new constitution all not-yet alienated land is vested in the ruler of the state. Theoretically the Federation has the competence to pass a land legislation in order to pursue a common land policy and a common system of land administration, but in practice land has remained the prerogative of the states and settlements, and it has proved difficult to establish a homogeneous land policy and administration in the Federation. Though land codes vary from state to state, a certain similarity in essentials exists, e.g., the almost general use of the Torrens system of land registration. The Settlements of Penang and Malacca, however, have not yet adopted this system, though they contemplate its introduction, and they continue a registration of deeds which does not establish indisputable ownership rights in land.

The practically unlimited authority of the states in land matters has inevitably had unfavourable effects on land development and land policy. The policy of the rulers depends on the consent of their respective state councils, the members of which, as a rule, are greatly interested in the maintenance of the status quo and strongly opposed to an extension of federal authority into their respective states. Adequate solutions of pressing problems such as the establishment of stable tenure conditions for the Chinese who were settled in the "New

Villages" during the Emergency were delayed and even made impossible by the prerogative of the states in land policy matters.

The recent Land (Groups Settlement Areas) Act of 1960 (Act of Parliament No. 13) indicates, however, that the necessity of ensuring uniformity in land policies has found some recognition. The Act lays down uniform rules for the designation of group settlement areas in the various states of the Federation (with the exception of Malacca and Penang), and for the alienation of rural holdings to individuals within these settlements. In addition, the Act prohibits subdivision, undivided share arrangements and subleases of land.

LAND TENURE PROBLEMS IN PADDY AREAS. It is significant that a country like Malaya with an abundance of land and unprecedented economic expansion has been paying very little attention to the actually existing tenure conditions. For many years both British and Malay authorities have underestimated the proportions and the seriousness of the tenancy problem in the paddy areas, especially in the north, where about half of the paddy land is tenanted, and in parts of the Province Wellesley where the tenancy percentage is as high as 60. A recent publication of the surveys conducted by the Department of Agriculture of the Federation on Peasant Paddy Farming<sup>9</sup> during the crop years 1954-55 and 1955-56 is of the greatest significance, since it contains the first thoroughly documented information on tenant conditions in the paddy area which confirms the earlier impressions indicated in the reports of the International Bank Mission and the Rice Committee.

Tenancy is most common in the paddy regions of North Malaya, but is also frequently encountered in the rubber areas of Johore and Kelantan. The landlord-tenant relationship, which in the past had some paternalistic features, has become more and more commercialized in the post-war years, and the practice of "teamoney", a form of premium to be paid to the landlord, together with the advance payment of cash rents, is gradually replacing the traditional rent agreements in the densely populated districts of North Kedah and the Province Wellesley.

<sup>9</sup> T. B. Wilson, *The Economics of Paddy Production in North Malaya*, Part I, Ministry of Agriculture, Federation of Malaya, June 1958.

TABLE X  
PADDY LAND AREAS IN NORTH MALAYA<sup>a</sup> UNDER  
TENURE TYPES  
(Percentage)

<i>State or District</i>	<i>Owner farmed</i>	<i>Fixed Paddy</i>	<i>Rental Cash</i>	<i>Lease</i>	<i>Crop sharing</i>	<i>Loan</i>	<i>Mortgage</i>	<i>Total Paddy land</i>
Polis	53.2	38.3	0.7	2.0	5.8	—	—	100
Kedah	44.0	41.6	7.7	6.2	0.4	—	0.1	100
Prov. Wellesley	38.0	57.3	0.6	3.8	0.3	—	—	100
Kalaban	50.9	1.8	0.1	—	47.0	0.2	—	100
Krian	56.7	34.9	5.4	1.5	1.0	0.4	0.1	100
	47.8	31.5	4.5	3.5	12.6	0.1	—	100

<sup>a</sup> T. B. Wilson, *The Economics of Paddy Production in North Malaya*, Part I, p. 11.

It is rather ironical that tenure conditions for Malay cultivators are very unsatisfactory in those areas where well-intentioned government regulations, e.g., the Malay Reservations, have been introduced to protect them from losing their land and they are being exploited by the Chinese middlemen and moneylenders. Today, tenants are frequently confronted with the demand for advance cash rents for the land and if they do not have the support of sufficiently strong cooperative societies, they are inevitably bound to borrow money from shopkeepers and landlords. They become more and more dependent on the so-called "paddy Kuncha" system, by which credit is obtained from a paddy dealer in the course of the cultivation period against the pledge of repayment of a stipulated quantity of paddy at harvest time, often at an interest rate of 100 per cent or more. This commercialization of tenure relations has resulted in increased indebtedness of the tenants and in an added strain on the financial resources of the cooperative societies. The Bank Mission Report sums up the situation by stating that if this practice continues "normal cooperative activities may be jeopardized and part of the credit facilities

made available to cooperative societies by the government would go to the landlords".<sup>10</sup>

The Survey of the Ministry of Agriculture has confirmed that a considerable increase in rents has occurred between 1949-50 and 1954-55, particularly in the States of Perlis (20 per cent) and Kedah (16 per cent), but still more important is the increase in the area under advance cash agreements (Kedah 140 per cent). It confirms the observation of the Bank Mission that the increase has been quite considerable, and has largely transferred the entire risk of cultivation and price fluctuations from landlord to tenant. In addition, advance cash rents contain a concealed rent increase due to the interest on the loans which the tenant has to take in order to meet the advance cash payment of the rent.

It is obvious that the security of the tenant cultivator in prosperous post-war Malaya has been reduced substantially. Large parts of Malaya have become areas of tenant instability and present a potential danger of agrarian unrest in a not too distant future. The survey states that the insecurity of the Malay tenants in the paddy areas is indicated by the large number of new tenants in 1955-56. In that year 14 per cent of the tenants in Perlis, 20 per cent in Kedah, 8 per cent in the Province Wellesley, and 42 per cent in Kelantan entered new tenancy agreements.

In 1955, following some unrest in Kedah, a tenure security act<sup>11</sup> was passed which was an attempt to introduce the legal registration of tenancy agreements, to fix maximum rents, and to establish local committees for the settlement of disputes. The act, however, proved to be almost a model of an inadequate tenure legislation and has perhaps even worsened the situation in parts of Perlis, Kelantan and Province Wellesley where its enforcement was attempted. Nowhere was the authority of the administration employed to strengthen the economic and social position of the tenant, who alone was made responsible for the registration of his tenancy agreement. The Final Report of the Rice Committee states that the effects of this Ordinance even further reduced

<sup>10</sup> Ibid., p. 318.

<sup>11</sup> The Paddy Cultivators (Control of Rent and Security of Tenure) Ordinance 1955.

the security of tenancy, since lower rents are now increased to the legal maximum and the local Committees are likely to side with the landlords in disputes "where the tenants are on the defensive against eviction". The Survey of the Agricultural Ministry stresses that the Ordinance has largely been ignored and that no government department has assumed the responsibility for its enforcement. "An Act of this nature is not a self-enforcing Ordinance, especially as it introduces control into practices that are increasing in Kedah and are well established in Krian and Kelantan."<sup>12</sup> In 1956-57 the registration of tenancy agreements was only 15 per cent for Kedah and Perlis. The illegal practices of extortionate rents, advance cash rents, cash deposits and other unbearable rent conditions are continuing unabated.

The economic and social position of the tenant cultivator deserves the closest attention, since there are strong indications of increasing concentration of ownership in the paddy areas. The survey of a sample of 102 holdings in Krian with 1,825 acres of paddy land shows that three holdings alone covered 56 per cent of the entire area, while the nine largest holdings together covered 67 per cent. Half of the holdings were less than 5 acres with an average of only 3 acres. The most frightening feature in this picture, however, is the fact that this high concentration of ownership is taking place in Krian, an area of predominantly small holdings which were established only two generations ago.

SUBDIVISION—FRAGMENTATION—CONSOLIDATION. The Moslem inheritance laws especially in areas with heavy population pressure are causing excessive fragmentation and subdivision of holdings. Land registers in many parts of the Federation bear evidence of often minute fragmentation of holdings. The Survey of the Ministry of Agriculture brings a detailed investigation of the subdivision and fragmentation of paddy holdings in Krian which is reflected in the increasing number of co-owners. It appears from the data compiled that one-third of the Krian holdings have two or more co-owners, with one share in eleven representing one-fourth of an acre or less. In the congested paddy areas of North Malaya subdivision and fragmentation have led to uneconomic holdings and thus

<sup>12</sup> T. B. Wilson, *op. cit.*, p. 96.

contributed to the well-known chain reaction of concealed unemployment, reduced family income, increased indebtedness, low yield, abandonment of the land, and finally a declining level of living which may easily result in social unrest.

The problems of subdivision and fragmentation in the rubber areas are likewise serious. Joint ownership of rubber small holdings makes adequate replanting schemes more difficult or often impossible and usually leads to over-tapping. In addition, however, the recent dissolution of European rubber estates has led to new dangerous structural problems. The uncontrolled subdivision of such estates is most frequently handled by operators who shrewdly manipulate the land hunger of the peasants and the higher government subsidies paid for replanting on small holdings. Estate lands, often of only marginal productivity, are sold to speculators and investors, who establish themselves as absentee landlords renting smaller pieces of land to tenants. In other cases small holders acquire additional plots which accentuate the trend to fragmentation in the rubber areas. The dissolution of the estates has certainly not contributed to the establishment of an economically healthy small-holder class. It is more likely that it will spread landlordism and increase fragmentation and the exploitation of rural labour, since the newly established units are not obliged to abide by any of the wage agreements between the Rubber Workers' Union and the Employers' Association.<sup>13</sup>

Only a well-conceived legislation controlling the subdivision of large estates, as for example in Ceylon,<sup>14</sup> would help to prevent a serious disintegration of the land distribution pattern in the rubber areas of Malaya.

As the country is predominantly Moslem it is difficult to formulate a legislation against subdivision, since the orthodox interpretation of the Koran requires the physical division of

<sup>13</sup> U. A. Aziz, "Land Disintegration and Land Policy in Malaya", *Malayan Economic Review*, Vol. III, No. 1, pp. 22-29, April 1958. The article comments on a Committee Report concerned with the causes, extent, and results of subdivision of estates over 100 acres since December 31, 1954 (CLFM 65/57).

<sup>14</sup> Ceylon : Tea and Rubber Estates (Control of Fragmentation) Act 2, 1958.

any estate among the heirs. The most important modification so far has occurred in Kelantan which now prohibits subdivision of holdings comprising less than one-fourth of an acre.<sup>15</sup>

The continuing atomization of the Malay holdings must lead to the disintegration of the Malayan agricultural community. In large areas of the Federation the uncurbed fragmentation has deprived many a cultivator of his land and has forced him into a fluctuating tenancy. Such development could be prevented or at least reduced by the implementation of nationwide consolidation schemes which aim at the reconstruction of Malay agriculture, particularly in the paddy areas. Large-scale consolidation, however, will bring results only when closely coordinated with government settlement schemes in new areas of cultivation and with the provision of alternative non-agricultural employment opportunities. Consolidation measures designed to eliminate uneconomic holdings should be carried out preferably in the new areas under irrigation where otherwise continued fragmentation would reduce substantially the benefit of technical progress. Fortunately, the Federation of Malaya has both the means and the resources for a comprehensive agrarian reconstruction, which should be initiated in the very near future, though booming export markets may still disguise its urgency for a few years to come.

**MALAY RESERVATIONS.** In order to defend the Malay peasant against Chinese competition for land and superior economic interests, the British Administration through State and Settlement legislation designated large areas as Malay reservations. The first Malay Reservation Enactment was promulgated in the Federated Malay States in 1913, and similar legislations were enacted in Kelantan in 1930, in Perlis, 1935, in Johore, 1936, and in Trengganu in 1941. No reservations were established in the Settlement of Penang, but the Customary Rights Ordinance in Malacca has a similar effect. The purpose of this legislation was to protect existing Malay ownership, but not to exclude non-Malays from the reservations. The serious deterioration of tenure conditions in the paddy areas of North Malaya, however, has proved clearly that land reservations alone are no device against poverty, social regression and economic instability.

<sup>15</sup> Kelantan Land Enactment of 1938, Section 37 A.

The original legislation on the Malay reservations provided that only Malays should be granted land in these areas and that no non-Malay might acquire such land from a Malay. It is true that these reservations protected the Malay ownership in designated areas by prohibiting the transfer or lease of Malay-held land to any non-Malay, but they have not excluded the non-Malay shopkeeper or moneylender. Likewise, the original legislation has not prevented the Malay from pledging his land as security to the non-Malay moneylender or shopkeeper who, therefore, could gain effective control of the land, while the Malay remained owner in name only. Later amendments have closed this loophole in the legislation, but at the same time deprived the Malay small holder of any credit facilities, since until very recently no institutional credit was available in the reservations. The Malay landlord is still in a position to extort excessive payments from his Malay tenant and to make a short-term share-cropping arrangement with a Chinese peasant who is willing to pay a higher rent.

The reservations have certainly protected the ownership rights of the Malays and reduced the pressure of outside economic forces, but at the same time they have delayed agricultural progress, restrained the Malay cultivator from developing an active capacity for economic competition and thus prevented his integration into the advancing economy. In fact, the Malay cultivators in the Province Wellesley, where no reservations exist, are not worse off economically than the Malays living in the reservations of the neighbouring states. They have actually shown a higher degree of initiative.

The International Bank Mission<sup>16</sup> has recommended a re-examination of the present land use legislation for non-Malays and emphasized that only substantial efforts in the field of education and improvements in the institutional arrangements can strengthen the economic position of the Malay cultivators. Indeed, one of the most dangerous aspects of the Malay reservations is the fact that they deviate the attention from points of decisive importance to merely emotional factors, and thus actually contribute to the maintenance of institutional arrangements which have proved to conserve poverty and

<sup>16</sup> *Bank Mission Report*, pp. 311-13.



backwardness rather than open new roads for progress and a better distribution of wealth.

NEW VILLAGES. One of the most effective actions of the British administration in the course of the Emergency was the resettlement of the Chinese population living in scattered rural communities close to the jungle. Since 1950 more than 570,000 Chinese have been resettled in about 550 compact "new villages". Though this operation was carried out solely for security reasons a large number of the "new villages" were provided with basic services, and have prospects for progressive development. The final outcome of this large resettlement scheme cannot be judged until some time has elapsed after the Emergency is over and the "new villages" have obtained the status of free communities, from where the members can move into other areas if they so wish. The drift away from the villages will most likely be quite considerable, since land has been offered to the resettlers at generally less favourable terms than usually is the case. Leases, if granted at all, are given for restricted periods only and against comparably high rents.<sup>17</sup> In fact the Chinese were never offered the strongest incentive for any new settlements: a long-term leasehold at favourable terms or full property rights to the land. They will constitute, therefore, a factor of instability for years to come, unless provided with satisfactory tenure conditions.<sup>18</sup>

LAND ADMINISTRATION. The need is obvious for a homogeneous land policy and land administration in the Federation of Malaya. The methods employed to achieve this objective and the speed of implementation will largely determine the future agricultural development in the country. The problems of tenure and fragmentation, land development and settlement can only be solved by a country-wide approach which should take the interests of the states into consideration but should not be decided by them. The coordination of land policies and agriculture within one Federal department is an additional prerogative for success, since the present division between land as a natural resource and agriculture as an administration in its

<sup>17</sup> *Bank Mission Report*, p. 87.

<sup>18</sup> *Report of the Land Administration Commission*, Federation of Malaya, 1957, p. 39. This report recommends 99 year leases for the more promising villages.

own right by necessity causes deviations and frictions and jeopardizes the proper adjustment of land policies to the needs of agricultural development.

The dynamic expansion of the agricultural sector of Malaya's economy will sooner or later force the adoption of a national land code and the creation of a Federal agricultural administration and land policy.<sup>19</sup> The establishment of the Federal Land Development Authority in 1956 could have been considered a step in the right direction, had it not been tied up so closely with the State Boards which it provides with funds for local development projects.<sup>20</sup> The urgent demand for a national approach to land problems was confirmed by the more than 200,000 applications for land submitted to the recently established National Land Council.

It cannot be emphasized strongly enough that only a Federal land policy can effect the economic, racial, social and cultural integration of the different population groups. Mounting tension and the risk of agrarian unrest will continue as long as local interests are strong enough to confine the fundamental, country-wide problems within narrow state boundaries. In comparison with these serious dangers the frequently cited arrears and unfortunate inefficiencies in the Land Record Offices are of minor importance.

CREDIT—MARKETING—COOPERATIVES. The pattern of credit and marketing, typical of Southeast Asia, also marks the economy of the Federation. Insufficient institutional credit, absence of recognized standards of quality grading, poor transportation, communication and storage facilities and the almost complete lack of information on both local and world market trends in the rural areas inevitably necessitate the middleman's services.

In varying degrees all small holders in Malaya are suffering under these inadequacies, though they are most strongly felt in the paddy producing areas of North Malaya and somewhat less in the more advanced centres of rubber production. In the paddy areas the prevailing paddy kuncha system,<sup>21</sup>

<sup>19</sup> Op. cit., pp. 25 ff.

<sup>20</sup> *Annual Report of the Federal Land Development Authority*, 1958, paragraph 3.

<sup>21</sup> The "kuncha" is a customary unit of measure equivalent in weight to around 850 lbs. of paddy.

mentioned above, actually prevents the cultivator from competitively marketing his produce by making him completely dependent on the middleman, who is his only available source of credit. The disastrous impact of defective credit and marketing arrangements on the Malayan small holder is today fully recognized,<sup>22</sup> although its close interrelationship with the existing tenure arrangements is frequently underestimated. Naturally, it has always been less risky to make a frontal attack against the traders than to touch the traditional tenure system, which to a considerable extent is closely associated with the social hierarchy in the Federation.

The various administrations in Malaya have given considerable attention to the development of a cooperative movement. In the years 1955 to 1957 a subvention of Malay \$3 million was made available for the financing of cooperative societies, and by the end of 1957 a total of 1,075 credit cooperatives had been established with a membership of almost 47,000 and a working capital of over Malay \$8.6 million. The societies, partly also acting as purchasing agents for paddy, were organized in 19 rural bank unions which together formed the Rural Cooperative Apex Bank to which the government subvention was made available for final distribution. By the end of 1957 a total of Malay \$8.2 million had been lent out by the Apex Bank, of which 4.9 million had been recovered. Of the outstanding balance of \$2.3 million only \$304,000 were overdue. It has to be noted that the total interest paid by the paddy cultivators amounted to less than \$500,000, while the interest on the same amount of credit under the paddy kuncha system would have been in the neighbourhood of \$8 million.

Though the results of the credit cooperatives have been quite satisfactory, their scale of operations remains rather inadequate, since it covers only about 10 per cent of the credit needs in the paddy areas of Kedah, Province Wellesley and Krian which are estimated at at least Malay \$30-40 million. An effort was also made to establish cooperative societies in the marketing sector, and by the end of the 1955-57 period 226 cooperative rice mills, 21 marketing societies for rubber, and

<sup>22</sup> *Bank Mission Report*, pp. 77 ff.; *Report of the Rice Commission*, pp. 16 ff.; A. M. Thomson, *Marketing of Rice in the Federation of Malaya*, FAO Report, 1955.

22 for vegetables were in operation. Their basic problem, however, is to maintain the loyalty of their members, which is constantly challenged by the competition of the middlemen who are supported by well-organized marketing corporations of dealers and shopkeepers and last but not least by the agrarian structure in their localities.

The future development in the rural areas of the Federation will be influenced to a considerable extent by the effectiveness of the Rural and Industrial Development Authority (RIDA), established in 1950 with the object of stimulating rural development particularly in areas with predominantly Malay small holders. It has been stated with great emphasis that the test for the efficiency of RIDA will be the economic rise in the level of living and that its objects are neither charity, subsidies, nor the creation of opportunities for individual achievements, but the large-scale promotion of rural development and the establishment of a broad social stratification. The report of the first five years of RIDA activity indicates in one of its recommendations that in the future it will be necessary to concentrate on "three main functions, namely, planning (including research and pilot projects), training, and coordination."<sup>23</sup> It might be added that a factual and well-conducted campaign in order to convince the people of the urgency of fundamental structural changes would be equally important, and should be considered a most necessary precondition for success in other fields.

#### RUBBER FARMING

Despite its large proportions and high efficiency the rubber industry of Malaya has serious structural shortcomings and needs considerable adjustments. The first great reorganization was carried out after 1928, when the then Under-Secretary of State for the Colonies, Sir Ormsby-Gore, had visited the rubber production centres in Malaya, Ceylon and Java and in his report to Parliament<sup>24</sup> severely criticized the costly

<sup>23</sup> D. E. M. Fiennes, *Report on Rural and Industrial Development Authority*, 1950-55, Federation of Malaya, Kuala Lumpur, 1957.

<sup>24</sup> *Parliamentary Papers*, CMD, 3235 (1928), pp. 134-54, especially pp. 141-48.

organization and operation of the British plantations in Malaya. He also considered the lack of Malayan participation in rubber cultivation as the most serious threat to the European estates "with their high overhead expenses and costly management", which virtually force them to continue tapping regardless of the price situation.

For a long time before the war Malaya was behind the Netherlands Indies in adopting rubber strains of higher yield. While the average annual yield in Malaya was 350-450 lbs. of rubber per acre, the yield from bud-grafted trees in the Netherlands Indies reached a thousand pounds and more. Since variations in yield are largely determined by heredity the productivity of an estate depends on the number of trees grown from buds of high-yielding parent trees. This process known as "bud-grafting" needs many years of experiment and selection. The establishment of a proven progeny, called clone, of a highly qualified parent tree requires about ten years. The high yield and standard of the rubber production in the Netherlands Indies before the war was due to the successful application of bud-grafting directed by the Research Institute of Buitenzorg, Java. In Malaya, however, the rubber research lagged behind, and when bud-grafting was finally introduced, the demand for grafts became so great that at times they were taken from not fully proven clones, thereby creating new problems. A systematic improvement of the rubber strains was not started until 1928 by a large-scale import of bud wood from Java, and the expansion of the Malaya Rubber Research Institute, founded in 1925. In the years just prior to the war a staff of thirty scientists was attached to the Institute. Grafting, fertilizing and the treatment of pests and root diseases were improved. Modern forestry methods were employed for improving and conserving the soil on estates with mature trees, and better means of preservation for the rubber shipments were developed. Estate operations were reorganized and the costs of production reduced by lowering the administration expenses and absorbing the management of the less profitable estates. But in spite of these great improvements only around 350,000 acres or 10 per cent of the total rubber acreage were planted with bud-grafted trees on the eve of World War II.

The productive capacity of Malaya's rubber industry suffered

considerably less under the war and Japanese occupation than did most other plantation industries in Southeast Asia. The fact that Malaya is not overpopulated as is Java saved the plantations from large-scale tree-cutting in order to make room for the growing of food crops, and only 2 per cent of the total rubber acreage was invaded by squatters.<sup>25</sup> But war, occupation, and post-war insecurity considerably reduced the local labour force which became a serious problem for the rubber industry. Evidently, labour difficulties were greatest on the European estates where the staff had been greatly reduced.

When systematic tapping was resumed on the estates in the first post-war years it was only natural that record yields were obtained, and for some time this fact concealed the actual deterioration of the rubber plantings due to the neglect of maintenance and replanting during the war and occupation years. A reconstruction of the productive capacity of the rubber industry, therefore, became a most urgent problem. It soon became evident, however, that the reconstruction of plantations in Malaya could not be achieved by financial and technical means alone, and that political problems were involved as well. During the Emergency the estates had to cope with the disintegration of their labour force besides their own management problems and the general state of insecurity. Furthermore, the expansion of the synthetic rubber industry in the early fifties made investments for the required large-scale replanting seem a most doubtful business proposition.

In 1955, when the Emergency was over, it became evident, however, that the growing world demand for rubber would leave room for the production of both synthetic and natural rubber. From then on the organizational problems of the estates were tackled more rationally and were partly solved by employing Malays in technical supervisory positions. It turned out, however, to be far more difficult to deal with the technical shortcomings of rubber production both on estates and on small holdings. In 1953, more than 50 per cent of the rubber trees in all of Malaya were at least thirty-three years old and overdue for replanting.<sup>26</sup> In order to effect such widespread

<sup>25</sup> G. C. Allen and A. G. Donnithorne, *op. cit.*, pp. 127 ff.

<sup>26</sup> *Report of a Mission of Enquiry into the Rubber Industry of Malaya*, Federation of Malaya, p. 12.

replanting a special cess was imposed during the Korean war boom, depending on the price of rubber, for the purpose of establishing a fund from which financial assistance for replanting could be obtained. The Colonial Development and Welfare Fund gave supplementary support for the replanting on small holdings.

Cost data from a representative cross section of rubber estates indicate that the production of high-yielding rubber on well-managed estates competes profitably with synthetic rubber;<sup>27</sup> but it is not unlikely that high-yielding rubber small holdings, cultivated either by the family unit or on a share-cropper basis, would be even less vulnerable to the competition of synthetic rubber. The International Bank Mission recommended investments in high-yielding rubber trees by efficient estates and small holdings in view of what seems to be reasonable expectation of future markets and the increase in output at reduced unit costs. The vast proportions of the proposed replanting scheme become evident, when considering the fact that in 1954 about two-thirds of the total estate acreage of around 2 million acres and nearly all small holdings (about 1.7 million acres) were still planted with low-yielding trees. The Mission of Enquiry into the Rubber Industry of Malaya recommended a minimum annual replanting rate of 3 per cent for the estates, and replanting on 500,000 acres of small holdings in the period 1953-59.

In the ten-year period, from 1947 to 1956, only 482,000 acres (195,000 ha.) of the total estate area were replanted and of these not more than 79,000 acres with selected high-yielding trees. The replanting on small holdings was very slow until 1953, when government subsidies were granted for replanting. In the following five years a total of 167,000 acres (67,500 ha.) of rubber small holdings were replanted and an additional 31,000 acres (12,500 ha.) were given new selected stock. The subsidies to small holders were granted partly in kind, such as selected stocks, fertilizers and fencing, and partly in cash to a total value of 600 Malay dollars per acre (the estates received subsidies of 400 Malay dollars per acre). When considering the relatively small replanted area, it may be doubted whether

<sup>27</sup> *Bank Mission Report*, p. 48 ff.; *Report of a Mission of Enquiry into the Rubber Industry of Malaya*, p. 129.

the subsidies to small holders were large enough to be effective, taking into account the considerable economic burden of replanting and particularly the loss of income while the trees are maturing.

Technical research, rationalization and the introduction of high-yielding stock have modified the concept of optimum size for the European-owned rubber estates, and the observed trend towards enlargement is in full agreement herewith. Through the discontinuance of the flow of immigrant labour, the traditional paternalistic system in labour management relations has been replaced in the post-war period by collective bargaining with modern trade unions. In independent Malaya, today, the political climate for estate rubber production is far more favourable than in Indonesia, where the estates are cornered by the peasant competition for land.

Though the estates have recovered rapidly in the post-war period, the position of the small rubber growers is still very problematic. Before the war they were discriminated against by monopolistic restrictions, and after the war they were almost entirely by-passed by the technical progress which was initiated by the planning and research departments of the estate companies. Concerned about this development the Government in 1951 established the Rubber Producers' Council in which both small holders and estates were represented. But the heavy weight of the estate interests does not allow effective relief to the small holders, who remain at a disadvantage by an unfortunate combination of technical and market factors. Their share in high-yielding stocks remains relatively small (it is somewhat greater in Johore) and their exclusion from the modern processing factories established by the estates makes it almost impossible for them to apply the new procedures for classification and latex grading which have become a prerequisite for successful competition with synthetic rubber. Their greatest handicap, however, is their continued dependence on the local rubber dealer for the sale of their produce, since he is often their only available source of the badly needed credit. The rubber dealer, a typical middleman, is generally less interested in the quality of the rubber than in the profit he can make on the rates of interest. This weakness did not become apparent during the first post-war



years when the rubber famine created a seller's market for natural rubber, but has become a generally recognized problem now that synthetic rubber is gaining ground on the world market owing to improved methods of manufacture and processing. Farsighted plantation companies, therefore, have established central factories, each dealing with the produce of large areas, often of more than 50,000 acres, and thereby achieved a considerable measure of uniformity and cleanliness by efficient methods of treatment, by adequate supervision and by the bulking of latex in large quantities. Such factories would be of the utmost importance also to the small holder who needs support for better processing at least as badly as for replanting. Actually, the support for replanting loses its meaning unless it is combined with equal assistance in the field of processing and marketing.

New institutional arrangements and government-supported marketing and processing cooperatives will be needed to strengthen the efficiency and marketing position of the small holder. Such efforts, however, will have only limited effects unless the structure of the entire rubber industry is re-examined with a view to giving the small holding the central place in future planning. A revised policy will deal differently with the alienation of new rubber land and, what is still more important, with the replanting scheme, which at present does not give a square deal to the small holder who has to gain his livelihood from a few acres of land.

The history of small-holder processing and marketing cooperatives is a long and sad one, and little has survived of the enterprises which were established with undoubtedly determined efforts. They withered away because their scale of operations was too limited and because they were not prepared to fight the superior competition of the efficient marketing organization of the middlemen, which provides the costly transport, processing, grading, packing and marketing services otherwise unobtainable for the small holder. In order to succeed in this major section of the producers' business a small-holder cooperative must provide at least equal services with improved security and a better return to its members.

The failure of the cooperative Grisek Central Factory established by RIDA has clearly demonstrated the uselessness

of isolated action and the importance of structural improvements for enterprises of that kind. The often uneconomic size of the rubber holdings, their high degree of dependence on landlords with commercial interests, the structure of the local rubber market and the indebtedness to certain dealers have defeated the well-intentioned price and marketing policy of the Grisek enterprise.

The small-holder rubber production could be a great asset for Malaya if given the proper institutional conditions for development. It is a political and psychological precondition, however, that the estate industry in time will recognize the need for practical solidarity with the small holder with regard to both production and marketing. A serious deterioration of the economic position of the small-holder class will by necessity sooner or later provoke a change in the political climate and expose the estate industry to militant nationalism, as has been the case in other countries of the region. In order to avoid such development a decisive effort must be made to improve the institutional conditions for the small holdings.

Malaya's rubber cultivation at present is still marked by over-organization, by the existence of uneconomic holdings, and by plantings of out-dated stocks. The Rubber Research Institute makes considerable efforts to train the small holders by sending out instructors who endeavour to introduce new methods of tapping, rubber preparation and disease control, but generally these efforts have shown only modest results. The holdings are still run in the traditional primitive manner, and the yield per tree has remained relatively low. Though rubber is often supplementary to the small holder's other crops, it provides his only cash income (even when reduced by the middleman's operation), on which he depends for paying taxes and for buying what he cannot produce himself. His tapping will, therefore, depend largely on the current price situation and is apt to increase when prices are low in order to secure his minimum existence. On the other hand, his costs of production are very low, since he has no costly organization or labour force, and can expand his production easily when the demand for rubber increases.

Because of the small holder's weakness in research, processing and marketing, any comparison with estate production

would be unfair. If, however, adequate support in all these fields would be provided, conditions might well be established which would even prove the economic superiority of the small holders, who do not have to calculate with heavy overhead expenses for the maintenance of an elaborate managing staff. In addition, they do not depend on a large number of hired labourers for the performance of simple routine operations,<sup>28</sup> and require less technical equipment and materials than the estates. Moreover, the fact that the profits of the small holders remain in the country and are not transferred abroad is an additional advantage for the national economy. The superior adjustment capacity of the rubber small holdings to changing world market trends was observed during the Korean war, when production reached an all-time high and 46 per cent of the total rubber output was produced on small holdings (in Indonesia even as much as 75 per cent).<sup>29</sup>

Malaya's rubber producers still have a long way to go if they want to face successfully the intensified competition on the world market. Science and research have changed rubber cultivation into a kind of chemical industry which is able to compete with the production of synthetic rubber. The future and the survival of Malaya's rubber industry will inevitably depend on the extent to which the small holder is integrated as an equal partner in production and marketing.

#### LABOUR

The development of the great rubber and tin industries in Malaya depended almost completely upon the import of an adequate labour force from abroad. Foreign capital and immigrant labour thus established an economic system which offered but little possibilities for local participation. The history of labour in Malaya is fundamental for the understanding not only of the present position of labour but also of the making of the nation.

In cooperation with the colonial administration the foreign

<sup>28</sup> P. T. Bauer, *Report on a Visit to the Rubber Growing Small Holdings of Malaya in July-September 1946*, Colonial Office, H.M.S.O., 1948, pp. 89 ff.

<sup>29</sup> G. C. Allen and A. G. Donnithorne, Appendix VI B.

enterprises recruited their labour force from overcrowded and famine-stricken South India and South China, and during the first decades of this century an uninterrupted stream of Tamils and Chinese coolies immigrated to Malaya. The immigrants from India were mainly employed on the rubber estates, while most of the Chinese labour was taken to the mines. A comparatively small amount of Javanese labour worked in the State of Johore and in scattered places on the east coast. Malay workers were found almost exclusively in the former Unfederated States and provided the labour force for government enterprises.

In the beginning the recruiting of immigrant labour was combined with heavy penal sanctions and the working conditions were extremely poor. But with the consolidation of the large enterprises a more stable, more reliable and better nourished labour force was needed. In the last years before the first World War contract labour was abolished by law and labour wages were gradually raised above the starvation level of India and China. In contrast to the Chinese government which was rather indifferent to the fate of its nationals abroad, the Indian government was very concerned and played an active part in improving the conditions offered to its emigrants. The Indian Immigration Committee, originally formed in order to control the recruiting of Indian labour, developed into a powerful administration and by the Immigration Act of 1922 the immigration of Indians to Malaya came under the joint control of Indian and Malayan authorities. The plantations were forced to accept standard rates for wages and render a minimum amount of social services. These and other improvements raised the social reputation of Malaya and made it an attractive goal for immigrant labour. Recruiting became unnecessary and the flow of free labour increased, especially after the Indian government had established an agency in Kuala Lumpur with the right to inspect all places where Indian labour was employed. Through assessments on all employers of Indian labour an Indian Immigration Fund was established which paid the expenses connected with the immigration of Indian labour including medical attention and the repatriation of destitute workers. In 1931 the Indian government finally prohibited all "assisted" immigration to

Malaya which was suspect of not being voluntary.

Under the influence of Western ideas labour regulations were set up in Malaya and a consistent policy was introduced with respect to wages, housing, sanitation, water supply and labour agreements. Since this system was based almost exclusively on the plantations, it completely collapsed during the depression, when plantation work was reduced to a minimum and more than 200,000 South Indians had to be repatriated at the expense of the Immigration Fund. The debacle during the depression brought into full daylight the extreme sensitiveness of the rubber industry to changing business trends and the plantations realized more than heretofore that their dependence on developments abroad called for a flexible labour force which could be quickly adjusted to fluctuating market situations and reduced to a minimum in periods of depression. Consequently, no conditions were offered which would induce immigrant workers to settle down. For years the size of Malaya's labour population was a function of the rise and fall in rubber and tin prices. Being foreigners in the country the immigrants had but little chance to earn a livelihood outside the industry in which they were originally employed. The fact that the majority of labourers stayed only temporarily without ever feeling at home undoubtedly delayed the advance of trade unionism and prevented political conflict situations for quite some time. But the political activity and radicalism which marked the thirties in India and China spread their influence to the foreign labourers in Malaya, especially to the Chinese.

Immigrant labour thus became the bearer of revolutionary ideas in Malaya. Political, rather than economic, issues dominated the movement, and strikes were no longer directed against specific abuses but against the general status of labour. The social ideas of the Indian National Congress and of the Kuomintang gained ground among the non-Malay labourers and resulted in very effective strikes, particularly among the Chinese mining workers, who were even supported by the old, traditionally conservative, Chinese mutual aid societies.

In 1937-38 a wave of social unrest, initiated in the mining industry of the Straits Settlements, swept the country. Though

it was a still unorganized labour class which fought the fight, the government felt impelled to set up the necessary machinery for arbitration and draft some progressive laws for the promotion of a trade union movement with the right to collective bargaining; the bills, however, were shelved for more than three years. During a period of increasing unrest Chinese associations actively supported the Indian strike movements, and a united labour front in Malaya seemed imminent. At the outbreak of the war political emotions and increased living costs intensified the labour conflicts. A considerable labour shortage in the booming rubber and tin industries supported the strikers and actually resulted in a 20-30 per cent wage increase, the eight-hour day, a weekly holiday, and full pay for sick leave.

Though the first six months of the war brought further improvements for the labourers and the introduction of a far more progressive social policy, the social and economic pattern could not be changed overnight. Political propaganda increased in strength and frustrated the efforts of both administration and employers to control and neutralize the labour movement. The strongest factor in the political propaganda was the China War Relief Fund, which was originally only a collecting agency of the Chinese government during the war against Japan, but later became intimately connected with the communist section of the Chinese resistance movement. It developed into a political centre with radiations throughout the whole of Malaya, and it can be said that its activities prepared the guerilla movement during the first post-war years.

For quite some time the Indian labourers remained rather indifferent to the organization of trade unions, probably because the CIAM (Central Indian Association of Malaya) satisfactorily supervised the working conditions of the Tamils. The growing radicalism of the Chinese labourers, however, did not fail to affect the Indians, who from 1941 onwards participated in great numbers in the estate and colliery strikes throughout Malaya. In the course of 1941 the Trade Unions and Industrial Courts Bills were finally enforced mainly in order to secure the production necessary to meet the increasing export quotas. In August 1941, five months before the war in the Pacific, the government yielded to the pressure of the rubber and tin industries and declared strikes illegal during wartime.

Troops were called out to quell disorders, and in some regions the British authorities had to declare a state of emergency.

The war and the early post-war years were marked by the downfall of British authority under the Japanese attacks, the successful resistance in the jungle, the communist obstruction, and guerilla warfare. The gradual settling and partial urbanization of the heretofore extremely mobile complex labour force in the post-war period led to very rapid political and social changes and initiated a process of maturing in all groups of the population.

After the Emergency and the subsequent ousting of the communists the plantation worker unions developed relatively fast. In a realistic and more mature appraisal of the actual situation the union concentrated its efforts on collective bargaining and the defence of labour interests and stayed more and more away from political aspirations. The period of plantation paternalism definitely came to an end, a fact, however, which has not yet been fully understood by all estate companies.

According to recent statistics (1957) about 250,000 workers or almost one-fourth of the total working population is organized in the Malayan Trade Union Council (MTUC), in which the National Union of Plantation Workers with a membership of about 180,000 is the greatest and most effective organization. The number of organized female workers, however, is still very small. During recent years the government of the Federation has given remarkable support to the efforts of organized labour, and laws have been passed for workers' compensation and provident funds, for weekly holidays and the settlement of labour disputes.

Though labour conditions in Malaya today are generally better than in other Asian countries, budget and staffing difficulties in the Department of Labour are still so great that a uniform improvement throughout the country has not been achieved as yet. So far only about one-third of the places of employment are subject to regular inspections, and compliance with the requirements of the labour code with regard to working hours, holidays, employment of children, etc. is still far less than it could or should be.<sup>30</sup>

<sup>30</sup> *Bank Mission Report*, pp. 158 ff.

## CONCLUSIONS

The state of the economy of the Federation of Malaya can be judged more or less optimistically, depending on the viewpoint taken. The country's important position on the world market, the large returns on invested capital and the comparatively high general level of living certainly call for appreciation. This maximum of wealth, however, has been paid for with a maximum of economic dependence, the effects of which are evident in all sectors of economic and social activities. Agriculture in Malaya is based mainly on the production of sensitive export commodities, and the volume of production, therefore, is decided by world market developments to a far greater extent than in other countries. The production of subsistence crops is still limited and necessitates large-scale imports of rice which can only be paid for with the returns from exports, a fact which further increases the economic dependence of the country.

The colonial administration and the foreign enterprises have always been aware of the instability of Malaya's economy and of the heavy economic risks involved. They preferred, therefore, a flexible labour force and established an immigration machinery which would provide the needed amount of hands in times of prosperity without imposing any responsibility in times of depression. This policy diminished the economic risks but created serious political problems in the course of time. With the outbreak of World War II the immigration of labourers came to an end, and independent Malaya is faced with the challenging task of building up a multiracial nation by turning millions of immigrants into citizens with secure economic prospects.

The dependence on labour from India and China created a consequent dependence on the political ideologies of these countries and the complex political problems of independent Malaya are still the direct effects of the colonial past. The ultimate reconciliation of economic and social contrasts calls for the highest level of economic, social and cultural planning, if the promise of a better life is to be fulfilled for the paddy cultivator on the congested plains of North Malaya, for the under-privileged rubber small holder competing with highly



capitalized plantations, and for the vegetable grower and mining worker. Courageous action and prudent realism in the first year of independence have proved the existence of considerable ability for political cooperation and growing maturity. A gradual differentiation of Malaya's economy in the near future, therefore, should not be impossible, and would provide the needed outlet for the energies of the people and broaden the possibilities for political understanding.

From the point of view of national development it might be fortunate that the Malays participate only to a limited extent in the production of the export commodities. They have been left in possession of the greater part of their land which they farm for subsistence and for a surplus in periods favourable for trade and so have become the stable factor within a fluctuating agricultural economy.

Though Malaya has been the most successful country in Southeast Asia from a colonial point of view, the frequent and often serious economic, political and social crises prove that even outstanding economic success cannot counterbalance the ill-effects of an economy and a society which are wholly dependent on world market fluctuations, and that these ill-effects, if unchecked, grow proportionately to economic expansion. In the case of Malaya its complex racial problem was one of the most conspicuous effects of the colonial economy which influenced the regeneration after the war, since the great success of the national movements in India and China delayed the integration of the different racial groups in Malaya into one movement for political independence.

For decades the racial question has diverted the attention from the great political and economic issues. British rule maintained a balance of power by conducting either a pro-Malay policy or making important concessions to the non-Malay population. The final agreement which established the Federation of Malaya became a compromise between the British Crown and the Rulers of the Malay states. It was a most conservative approach to the basic problems of the country, since it left the states in control of the land and thus of one of the most important prerequisites for economic and social development.

During the coming years the proper application of the rich

human and natural resources will determine the pace of development in Malaya. Foreign capital can facilitate this development, but is a desirable asset only if it serves the real needs of a well-balanced economic and social development. Post-war experiences of the new nations in Southeast Asia have proved sufficiently that an accentuated economic dependence is a factor of instability and implies an incalculable amount of economic and social risks.

## CHAPTER VI

# INDO-CHINA

## INTRODUCTION

[During the post-war years turbulent political developments have taken place in that part of Southeast Asia formerly known as French Indo-China, and after several years of actual warfare French colonial rule came to an end. The Geneva Conference of July 1954 recognized the political independence of the two kingdoms, Laos and Cambodia, and divided the region comprising Tonkin, Annam and Cochin-China into two independent countries, the Democratic Republic of Viet Nam, north of the 17th parallel and the Republic of Viet Nam, south of the 17th parallel.

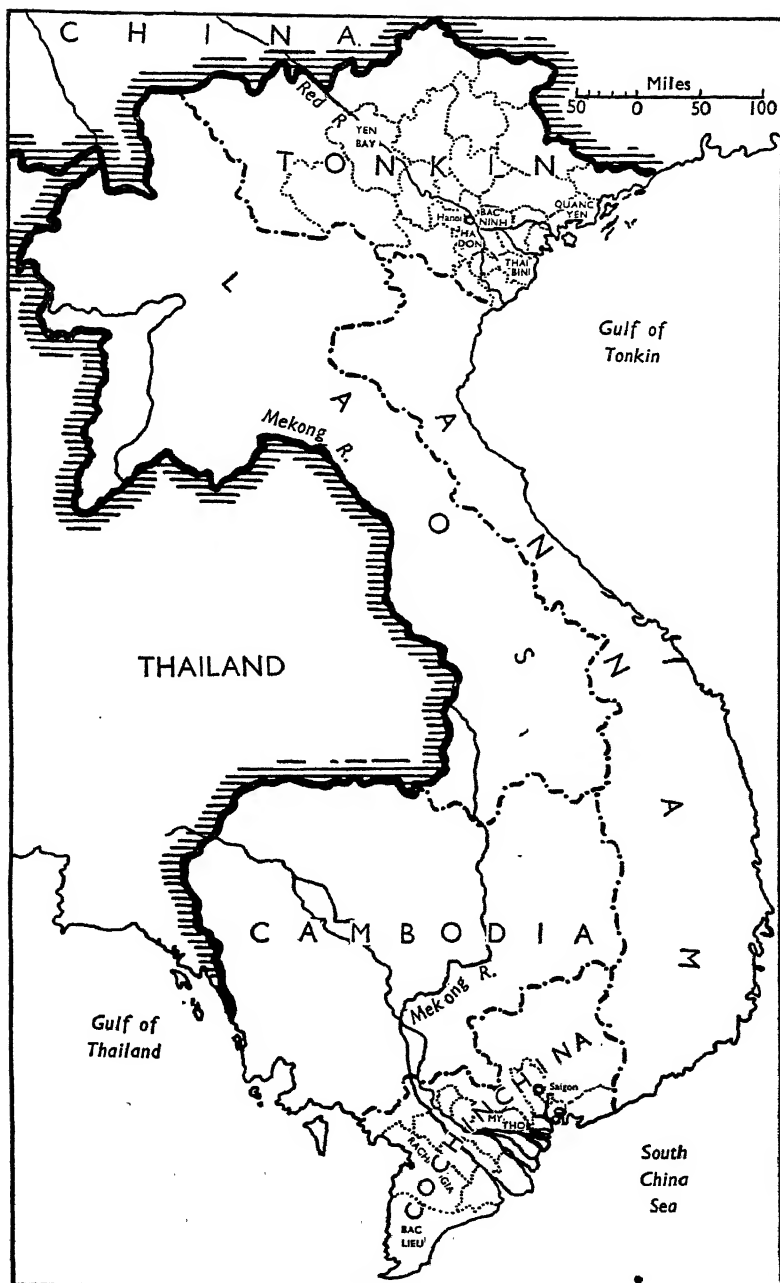
The information available on the social and economic development in these four new states, however, is still so incomplete that it would be premature to attempt a comparative evaluation of the development. The author, therefore, has decided to reprint the chapter on Indo-China from the 1949 edition of this book, since it reflects the general development of the entire region until the late forties and contains an analysis of the problems and conditions which released the political events after the War.

As an appendix to this chapter a short section has been added containing a few factual data on the conditions and recent developments in the four successor states.]

**FRENCH COLONIAL POLICY.** Indo-China, which consists of Tonkin, Annam, Laos, Cambodia and Cochin-China, has been compared to a pole balanced by two baskets of rice. The pole is the Annamite range; the baskets are the delta valleys of the Red River (to the north in Tonkin) and of the Mekong River (to the south in Cochin-China), both of them ancient centres of rice cultivation.

The French conquest of the large areas between the Mekong and Red Rivers had been prepared by the activities of traders and missionaries towards the end of the eighteenth century. The treaties of 1884 and 1885 definitely established a French Protectorate over Annam and Tonkin, thus eliminating the old Annamite Empire. French penetration started in the south with the conquest of the three provinces of Cochin-China (1862), was advanced by the accession of Cambodia (1864), and

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ended with the military control of the Tonkin delta (1874).<sup>1</sup> The only section which was governed directly as a colony was Cochinchina while native rulers remained in nominal control of most of the country. However, French colonial power was always the basic reality, the method of indirect rule being used for administrative expediency.

In Indo-China which was declared an "assimilated" colony,<sup>2</sup> France has established the most protectionist system in Southeast Asia. Both theoretically and practically, it came to depend almost completely on the interests of the mother country. Free trade was established with France, and products from other countries were subject to the same tariffs as in France. The establishment of the Indo-Chinese Union in 1887 coincided with a complete change in French economic thinking. The rapidly growing heavy industries in France demanded protected markets, and the man in the street resented the prophets of liberal thinking who were ready to share the colonial market with other countries. The French industries demanded further (and were supported by public opinion) "that colonial production must be limited to supplying the mother country with raw materials and with non-competitive products".<sup>3</sup> The law of 1892 provided for some flexibility but the French government, rather than the colonial administration, had the final word, and Indo-China's particular position was seldom considered. French metropolitan interests and demands of the customs treasurer generally took priority over the interests of the colony.

The first World War and the period of prosperity which followed strengthened the position of French industries in Indo-China. In 1928, a new law was enacted which practically did away with the old customs system and granted to the colonial administration the authority to adjust its tariffs to its needs. The basic principle of assimilation was maintained in the new law, although it was now used to serve the French

<sup>1</sup> Charles Robequain, *The Economic Development of French Indochina*, (tr. Isabel A. Ward), London and New York, 1944, pp. 3 ff.

<sup>2</sup> This principle is embodied in the French Law of January 11, 1892, to define the relations between France and the Union. See Duvergier, *Collection complète des lois, décrets, etc.*, Paris, 1892, pp. 5 ff.

<sup>3</sup> Meline (Director of the Association of French Industry and Agriculture), quoted by Robequain, *op. cit.*, p. 129.

interests invested in the colony. The protectionism of the colonial investors surpassed by far the claims of the industries of France and resulted in new tariff rates on foreign commodities, most of which exceeded those of the home tariff. These tariffs further aimed at exclusive protection for French export industries against Chinese and Japanese goods. This tended to isolate Indo-China from the rest of Asia.

The Imperial Economic Conference of 1934-35 emphasized the trends towards absolute protectionism and strengthened the ties between France and Indo-China. Some limited exceptions were made, however, which gave Indo-China the privilege of adjusting its commercial situation to the geographic position by a certain degree of autonomy in governing its relations with neighbouring states.<sup>4</sup> Within the treaties and agreements, however, French economic interests remained the dominating factor. Though the policy of assimilation had been formally abandoned, it did not alter the state of dependence, but, rather, emphasized the importance of French vested interests. Economic development in Indo-China has been generally hampered by complete subordination to these interests.<sup>5</sup>

#### FOREIGN INVESTMENTS, EXPORTS, AND BALANCE OF PAYMENTS

In 1938, a total of U. S. \$464 million were invested in Indo-China, of which \$382 million were in business enterprises. Western capital (95 per cent French) amounted to \$302 million; Chinese, to \$80 million. All outstanding rentier investments in 1938 (\$82 million) were French. Average profits from business were estimated at 7 per cent. More than one-third of the French capital was invested in agriculture, the remainder in processing industries, mining, trade, and banking. The relatively large share in agriculture was owing to the rapid development of rubber production in recent decades. Before the war, the value of French rubber holdings was estimated at U.S. \$45 million. In addition, French capital was invested in rice, tea, coffee, sugar, and cotton plantations.<sup>6</sup>

<sup>4</sup> Charles Robequain, *op. cit.*, pp. 128 ff., 132-33.

<sup>5</sup> *Ibid.*, p. 388.

<sup>6</sup> Helmut G. Callis, *Foreign Capital in Southeast Asia*, pp. 80, 85 ff., and

Chinese capital monopolizes the rice trade and dominates the retail business in Cochin-China and Cambodia ; 80 per cent of the rice mills and roughly half of the wholesale trade in other commodities were in Chinese hands. The Chinese are also well represented in a number of light industries, and they own saw mills, match factories, and mechanical workshops. In 1930, their remittances to Hong Kong were estimated at Hong Kong \$ 5 million.<sup>7</sup>

Aside from Chinese capital, foreign capital other than French is almost absent ; a virtual monopoly has been secured by French protectionism and paternalism, combined with direct discriminating restrictions against foreign economic activity.<sup>8</sup> Indo-China has become primarily a producer of agricultural and industrial raw materials.<sup>9</sup> As a result of French policy, which considers a colony exclusively as a source of raw materials and a market for manufactured goods, no essential manufacturing industries have been allowed to develop in Indo-China. Like other countries in the area, it has become primarily a producer of raw materials for export.<sup>10</sup>

Rice production is the backbone of the economy. It is not only the staple food for the population, but represents from 40 to 45 per cent of the total exports. In 1939, Indo-China exported about 1.6 million tons of rice, out of a production of 4 million tons. In recent years, rubber has ranked second ; exports in 1939 amounted to around 70,000 tons, representing a value of almost 1 billion francs.

Indo-China is the world's third largest exporter of rice and

"Capital Investment in Southeast Asia and the Philippines", *Annals of the American Academy of Political and Social Science*, March 1943, p. 28.

<sup>7</sup> Carl F. Remer, *Foreign Investments in China*, New York, 1933, pp. 179 ff., and table on p. 185.

<sup>8</sup> For instance, mining companies were obliged to have three-fourths majorities of French nationality on their Boards of Directors. Foreigners were excluded from land concessions. According to the U. S. Department of Commerce, *American Direct Investments in Foreign Countries* (1936), p. 16, American companies operating in Indo-China and Thailand had a capital of only \$ 3.3 million.

<sup>9</sup> Kate L. Mitchell, *Industrialization of the Western Pacific*, New York, 1942, pp. 151 ff.

<sup>10</sup> Some manufacturing industries, however, were established in 1939 against the administrative opposition, but they carefully avoided competition with French imports.

rubber. Coal, tin ore, iron ore, and other minerals are the other major exports. In 1939 and 1940, an export excess of 1.1 and 1.9 billion francs, respectively, was achieved, while the average in normal years was only 600 to 700 million francs. Even this considerable export excess, however, was normally insufficient to cover the annual transfers of commercial profits (600 to 800 million francs). For several years this resulted in a deficit in the balance of payments, and not until an excess export of around 1 billion francs was reached in 1937 did a surplus in the balance of payments of around 280 million francs appear for the first time. Payments were balanced by new capital imports, since the heavy transfers of profit prohibited the accumulation of capital in the colony. Increasing indebtedness, with little organic growth of capital equipment, has characterized the development of this assimilated colony.<sup>11</sup>

#### SURVIVAL OF NATIVE HANDICRAFTS

Unlike other countries in this area, native handicrafts have survived. The purchasing power of a large part of the native population has remained so low that the imported French goods have been inaccessible.<sup>12</sup> Although some of the handicrafts are gradually disappearing, in 1938, 1,350,000 people were still dependent on them for their livelihood, while a large part of the farming population found additional income in the village handicraft industries. Of about 6.5 million Annamites in lower Tonkin, 200,000 devoted the greater part of their time to this work, and 800,000 at least some weeks of the year. Native handicrafts are still very common in the northern part of the country, where land holdings are very small. They represent chiefly the preparation of foodstuffs, cotton and silk spinning, embroidery, manufacturing of fishing nets, wood work, some metal work, pottery and tile making. They are carried out almost entirely without modern equipment and

<sup>11</sup> *Balance of Payments*: 1938, Geneva, 1939, pp. 55 ff.; Callis, *Foreign Capital in Southeast Asia*, p. 84.

<sup>12</sup> Mitchell, op. cit. p. 153. Concerning the handicrafts in Indo-China, the author asserts that they still exist "because of the exceptional intensive character of French colonial exploitation, which, precluded any form of economic development that might have raised the purchasing power of the native population".



generally lack organization. They are closely connected with agriculture, in the main based on vegetable raw materials, and supplement the income of the peasant who uses his off-season time for artisan work. The returns are small, even in relation to the low agricultural income, and, therefore, unable to improve to any extent the position of the rural population.<sup>13</sup>

As late as 1938, the French government emphasized the importance of these handicrafts for the economic development of the country, declaring officially that the promotion of them is "one of the best methods of combating the rural pauperism resulting from over-population".<sup>14</sup> But the government refused to establish an essential industrial production, which would have lessened dependence on imports of textiles, machinery, and chemicals and, to a still higher degree, would have combated the rural pauperism.

#### POPULATION AND LAND UTILIZATION

Indo-China comprises an area of about 285,000 square miles. In 1936, the population amounted to about 23 million,<sup>15</sup> of which 90 per cent were peasants. The general population density was 81 per square mile. The greater part of the people, about 19 million, live in the delta valley, comprising an area of less than 40,000 square miles. In other words, 80 per cent of the population occupies less than 14 per cent of the total area.<sup>16</sup> Between 4 and 5 million people live on the remaining 245,000 square miles (about 20 per square mile). Out of the 2.8 million families representing the 19 million people, 1.9 million own their land and 900,000 make their living by wage earning and share-cropping ; 70 per cent of the landed families,

<sup>13</sup> *Labour Conditions in Indo-China*, International Labour Office, Studies and Reports, Series B., No. 26, Geneva, 1938, pp. 170 ff. ; Robequain, op. cit., pp. 243 ff.

<sup>14</sup> Quoted from Mitchell, op. cit., p. 162.

<sup>15</sup> *Annuaire Statistique de l'Indochine*, 1936-37 *services de la Statistique Général*, Hanoi, 1938, pp. 17 ff. Most of the figures are taken from this handbook.

<sup>16</sup> Jean de la Roche, "A Program of Social and Cultural Activity in Indochina", Institute of Pacific Relations, French Paper No. 3, New York, 1945, p. 42.

however, live in the overpopulated Tonkin area, and their plots are seldom large enough for their subsistence. In 1936, the population density in Tonkin was 195 people per square mile; in Cochinchina, 185; in Annam, 99; and in Cambodia, 44.

The cultivated area of about 6 million ha. comprises only 8 per cent of the total land area of the colony. According to official French statistics for 1937, 5 million ha. were planted in rice,<sup>17</sup> 500,000 in corn, 300,000 in rubber, and the remainder in sugar, coffee, tea and other crops. Of the total rice acreage, 1.2 million ha. are in Tonkin, 800,000 in Cambodia, and 2.3 million ha. in Cochinchina. Cochinchina supplies 55 per cent and Tonkin 35 per cent of the rice production of the country, but only the newer, still underpopulated, provinces of Cochinchina can produce an export crop.<sup>18</sup> The other parts of Indo-China consume the rice they grow and depend on the newer rice areas in times of emergency or famine.

Rice cultivation and population density are intimately related in Indo-China, where the population has mainly settled on rich alluvial plains of recent origin. In the Red River delta, 7.5 million people are concentrated on about 6,000 square miles, 4.5 million people on 6,000 square miles of plains along the coast of Annam, and 3.2 million on 6,200 square miles of plains in central Cochinchina. Further, a million people live on about 7,800 square miles in western Cochinchina, and 2.4 million on about 12,500 square miles in southern Cambodia.

Almost 75 per cent—16.7 million—are Annamites, who live on the plains of Tonkin and Annam and on the east side of Cochinchina. These people have retained the impress of Chinese culture ever since they were conquered by the Chinese a thousand years ago. They are industrious farmers, good fishermen, and skilful workers. The Cambodians, with a population of 2.9 million, tend to be indifferent, inactive, and less energetic farmers than their neighbours. Their district seems to be predestined for penetration by the Annamites, who, in the course of time, have established extensive colonies in

<sup>17</sup> V. D. Wickizer and M. K. Bennett, *The Rice Economy of Monsoon Asia*, Appendix, Table I, quotes for 1937-38 a rice area between 5.6 and 6 million ha.

<sup>18</sup> Virginia Thompson, *French Indo-China*, London, 1937, pp. 123 ff.

Cambodia. The Thai, representing 1.3 million, inhabit Laos and are likewise indifferent to agriculture. They prefer hunting and fishing.<sup>19</sup> The mountain regions of Tonkin, upper Laos, and the Annam range are populated by tribes (numbering about a million) which have only a few arable valleys and plains at their disposal. They are primarily of the type "who till with fire and sow with the sword".

More than 300,000 Chinese live in Indo-China, the majority in Cochin-China, and the rest mostly in Cambodia. They are traditionally merchants and traders, ranging from small shopkeepers to wealthy rice exporters. Chinese land-owning farmers are found in Cambodia, Chinese coolies on plantations in the south, and Chinese artisans in the towns.<sup>20</sup>

The population problem in the Tonkin delta is very serious. Here, an area of about 6,000 square miles must support about 7.5 million people, that is, a demographic density of more than 1,250 inhabitants per square mile. Nutrition densities of more than 1,950 per square mile are not uncommon, and even higher than that can be encountered in various provinces, as in Hadong, with 2,927, in Yenbay, with 2,971, and in Quang-Yen, even with 5,980 inhabitants per square mile.<sup>21</sup> In 1931, the average nutrition density in Tonkin was 1,916. Such densities are outstanding, in view of the fact that 95 per cent of the population is engaged in farming. The density is greatest where the land renders the best possibilities for drainage and irrigation, that is, along the estuary of the Red River, where consequently the social and economic problems are most delicate.

The term "excess population" refers to the actual level of living, and in an agricultural area, therefore, to the scarcity of land. Pierre Gourou hesitates, however, to apply this term to the actual conditions in the delta and argues that the agricultural technique used there requires a relatively large labour force.<sup>22</sup> The fact, however, that the normal rice ration per year

<sup>19</sup> Henri Gourdon, *L'Indochine*, Paris, p. 60.

<sup>20</sup> Virginia Thompson, op. cit., pp. 165 ff.; *Labour Conditions in Indo-China*, pp. 243 ff.

<sup>21</sup> *Labour Conditions in Indo-China*, pp. 217 ff.

<sup>22</sup> Pierre Gourou, *Land Utilization in French Indo-China*, translation of *L'utilisation du sol en Indochine française*, New York, 1945, Part II, pp. 92 ff.; *Labour Conditions in Indo-China*, pp. 218-19.

in Tonkin is only 136 kilograms per inhabitant, compared with an average of 250 kilograms in the rest of Indo-China, should be reason enough for the statement that there is excess population. In addition, the high rate of population increase in the delta lands has further increased the disproportion between production and consumption since the last census.

Problems arising from an excess of population exist also in other parts of Indo-China, especially in those districts of Annam bordering Tonkin, where land holdings are small and the nutrition density is between 1,560 and 1,690. The situation improves gradually towards the south, where one finds average nutrition densities of 1,003 in Cambodia and 600 in Cochin-China. Indo-China is, therefore, a typical example of maldistribution of population.

#### SIZE OF FARMS AND LAND TENURE

The size of farms and the form of land tenure differ in various parts of Indo-China, which is but natural in a country with such an unequally distributed population. While the peasants in the densely populated areas of Tonkin, Annam, and Cambodia till their own plots, Cochin-China is a country of large estates where the land is tilled by tenants and farm labour. Almost 99 per cent of the peasants in Tonkin, 90 per cent in Annam, and 95 per cent in Cambodia are owner cultivators, while the figure for Cochin-China is only 64.5 per cent.

The Tonkin delta is the most minutely subdivided area in the colony. About 62 per cent of the farming families own less than 0.36 ha. (1 *mu*) and 20 per cent even less than 0.18 ha.; 91.5 per cent of the farming families hold less than 1.8 ha. (5 *mu*). This overwhelming majority of the entire farming population of Tonkin cultivates only 40 per cent of the total rice area.<sup>23</sup> The minute parceling, partly due to inheritance policy, has serious disadvantages. The situation is similar in Annam, where 69 per cent of the peasants own less than half a hectare of rice land.

Although land utilization in Tonkin is characterized by a system of small-scale ownership, it remains a fact that the legal proprietor is frequently not the economic one. He is

<sup>23</sup> Pierre Gourou, *Land Utilization*, Part II, pp. 276 ff.

often practically a tenant, being obligated to make annual payments to the moneylender who has allowed him to remain on the holding. In addition (and this is the case in the whole country, not only in Tonkin), large land owners are frequently anxious to conceal actual property relations. Inaccuracy in registration and concealed transfer of ownership by special agreements often make it impossible to figure the actual dimensions of the large estates. An official inquiry in the very densely populated province of Thai Binh<sup>24</sup> disclosed that 122,000 small owners with less than 1 *mau* shared 61,000 *mau*, while 253 large owners held 28,000 *mau* directly, and, in addition, controlled 43,000 *mau*, the owners of which, in fact, were share-croppers of the big estate owners, though still registered as owners. Another inquiry reported by Gourou verified the desperate situation in certain villages of the Bac Ninh province, where there is a high percentage of small proprietors. Out of 1,672 proprietors examined, 1,528 owned less than 3 *mau* (1.08 ha.) and of these, more than 1,000 owned less than one-half *mau* (0.18 ha.).

In Cochín-China, the pattern is very different. Almost 72 per cent (180,000) of the total number of farmers have up to 5 ha. under cultivation, and only 86,000 of them own less than 1 ha. In spite of this relatively favourable proportion, the share of the small owner in the total rice area is only 12.5 per cent. The large holdings—those with more than 50 ha.—comprise 45 per cent of the area (in Tonkin, 20 per cent, in Annam, 10 per cent). Only 6,200 farms belong to this group, and many of them are under the same owner. In general, all holdings above 10 ha. are divided into parcels from 5 to 10 ha. each and are worked by tenants.

As in Java, the ancient institution of community land is still known in Indo-China, especially among the Annamites. The village community, the basic administrative unit of the Annamite Empire, owns part of the land. Every three years, the communal land is distributed in equal shares to each member of the community. This old Malayan institution corrects, to some extent, the practice of extensive subdivision of land in Tonkin and Annam and is preserved on 20-25 per cent of the total rice area.

<sup>24</sup> Pierre Gourou, *op. cit.*, pp. 280-81.

One of the most characteristic features in the pattern of land tenure is the uncertainty of ownership. This is partly due to inaccuracies in the old village land registers of the Annamite Empire and, to some extent, to the fact that the boundary between the land and water area is changing frequently. The French colonial administration tried to establish a stable basis for individual land ownership by gradually introducing a normal system of land registrations. In 1931, 15 million holdings had been surveyed in Tonkin; 3.6 million ha. out of an arable surface of 5.1 million in Cochinchina; 120,000 ha. in Cambodia; and 140,000 ha. in Annam.<sup>25</sup> So far, the initiative of the French administration has created clear-cut tenures, a prerequisite for regular transactions and for obtaining cheaper credit.<sup>26</sup> However, the traditional feeling of the Annamite peasants has counteracted the useful effects of these reforms. They refuse to sell their inadequate holdings and migrate to fertile new lands because the tombs of their ancestors are generally on the land and they are afraid to disturb their spirits. They have therefore preferred excessive indebtedness, and have accepted the hardest conditions if only they could remain on the land, even as tenants.<sup>27</sup>

Under French control, the land situation has changed considerably. Before French colonization, inequalities in landed wealth had been counterbalanced by the joint communal responsibilities of the villages. People deprived of rice fields turned for support to the communal lands, the cultivation of which was shared periodically.<sup>28</sup> But under French administration these communal lands were partly neglected, and land concentration increased rapidly. While the average size of the holding decreased with the increase of population, the French administration favoured the establishment of large estates by a generous concession policy and by patronizing and subsidizing plantation owners. Ample credits were at their disposal, while the peasants were obliged to turn to the usurious moneylenders for financial support. During the last fifty years,

<sup>25</sup> *Labour Conditions in Indo-China*, pp. 192 ff.

<sup>26</sup> *Ibid.*, pp. 195 ff.

<sup>27</sup> Paul Bernard, *Le Problème économique indochinois*, 1934, pp. 233 ff.

<sup>28</sup> Charles Robequain, *The Economic Development of French Indo-China*, p. 82.

European plantations have developed on a large scale. Between 1890 and 1937, the area of European estates increased from 11,000 ha. to more than 800,000, mainly in Cochín-China and Cambodia, but partly also in Tonkin and Annam.<sup>29</sup> The cultivation of the land has remained, nevertheless, in the hands of small cultivators, tenant farmers or share-croppers "whose wretchedness is increased by their debts". Robequain mentions that land speculation also involved communal lands because of the complicity of the village mandarins and head men.<sup>30</sup>

Large estates are found all over Indo-China, though their number and size vary in different parts of the country. The statistics below show legal, rather than economic, ownership. Actual conditions in Tonkin would reflect a much more pessimistic picture.

TABLE XII  
HOLDINGS BY SIZE IN PERCENTAGE OF RICE ACREAGE

<i>Districts</i>	<i>Total Rice Acreage (in thou- sands of ha.)</i>	<i>Large Estates over 50 ha. (Per cent)</i>	<i>Medium Estates 5 to 50 ha (Per cent)</i>	<i>Small Holdings under 5 ha. (Per cent)</i>	<i>Communi- ty Lands (Per cent)</i>
Tonkin	1,200	20	20	40	20
Annam	800	10	15	50	25
Cochin-China	2,300	45	37	15	3

*Source* : *Bulletin économique de l'Indochine*, Hanoi, 1938, II, pp. 746 ff., (Report of the Inspector General of Agriculture).

Cochin-China is today a country marked by large estates. Here, especially, the French colonial administration has favoured the establishment of a landed class who now control more than 80 per cent of the rice fields. About 60 per cent of

<sup>29</sup> Jean de la Roche, "French Indochina's Prospective Economic Regime", Institute of Pacific Relations, French Paper No. 2, New York, 1945, p. 2.

<sup>30</sup> Charles Robequain, *op. cit.*, p. 83.

the land of Cochin-China is leased out, and 200,000 landless families are engaged in share-cropping. Under French rule, rice cultivation extended rapidly to what had been waste lands, now irrigated by canals. These new lands were developed almost exclusively by large-scale cultivators—rich natives, European corporations, or individual French colonists, mostly on a credit basis. While, in the old central province of My Tho, 80 per cent of the farms have an area of 1 to 5 ha., only 38.3 per cent of the farms in the "new" province of Bac Lieu are of this size.<sup>31</sup> European-owned rice plantations, almost all in French hands, cover about 250,000 ha.<sup>32</sup>

In Cochin-China only one adult male peasant out of four is an owner cultivator and far too little communal land is available in the newly established villages. Consequently, the most serious land problem has developed, though there is an abundance of land in relation to the population.<sup>33</sup> French policy has prevented the best and most extensive territories from being used for the settlement of the excess population of Tonkin and Annam.<sup>34</sup> Nor did it grasp the opportunity to redistribute the lands of the large estates when so many great land owners became insolvent during the slump. At the end of 1932, the total indebtedness of Cochin-China's rice farmers amounted to about U.S. \$22 million of which more than 50 per cent was incurred by 655 land owners controlling 200,000 ha. The colonial administration, however, felt obliged to maintain the big estates and in 1932 issued a Special Decree establishing a general service for long-term agricultural loans in Indo-China, guaranteed by the Governor-General. This Decree also provided for a land settlement office for redistribution of land in those cases where the indebtedness was oppressive. The

<sup>31</sup> Charles Robequain, *op. cit.*, pp. 83-84.

<sup>32</sup> *Ibid.*, pp. 193 ff.; Gourou, *op. cit.*, Part III, p. 344.

<sup>33</sup> Jean de la Roche, *A Program of Social and Cultural Activity in Indo-china*, Institute of Pacific Relations, French Paper No. 3, New York, 1945, p. 8: "These conditions create a permanent political unrest and make for the existence of an agricultural proletariat which has no hope of bettering its conditions, but is rather due to ever growing indebtedness and abject misery."

<sup>34</sup> Yves Henry (General Inspector of Agriculture for the Colonies) "La Question Agraire en Indochine", *La Dépêche Coloniale*, December 16, 1936, quoted in *Labour Conditions in Indo-China*, p. 193.



records prove, however, that the effect of the Decree was to stabilize and consolidate the large estates, rather than to redistribute the land.<sup>35</sup>

#### LANDLORD-TENANT RELATIONSHIP—INDEBTEDNESS

The general features of the landlord-tenant relationship do not differ much from those in other countries of Southeast Asia. The plot of leased land averages 5 ha. As a rule, the tenant has to pay the landlord about 40 per cent of the crop (the percentage, however, varies somewhat with the fertility of the soil), but considering the expenses for cultivation, he seldom gets more than 50 per cent for himself. Hardly ever is the tenant allowed to dispose freely of his own share of the crop, as the landlord claims the control of the entire produce. This additional claim weakens the marketing position of the tenant.<sup>36</sup> Furthermore, the landlord-tenant relationship is generally combined with traditional feudal customs, precisely stipulating onerous gifts and services in favour of the landlord. If lucky, the tenant can supply the rice for his family, but he is at the mercy of the land owner for additional needs, especially in cases of emergency.<sup>37</sup>

The landlord is the main source of credit for the tenant. He furnishes the needed capital and rice to the tenant cultivator—who is quite frequently devoid of cash—at a rate which is officially estimated at about 50 per cent for eight months or one year, but which frequently goes up to 70 per cent or more.<sup>38</sup> Gourou quotes as rate for rice loan in Cochin-China an interest of 50 per cent to 100 per cent for a six-month loan. Aside from the landlord, professional Annamite and Chettyar money-lenders are available sources of credit; their rate of interest on personal property varies between 20 per cent and 80 per cent for three-month loans. Rates up to 120 per cent are not unheard of. The Annamite creditor usually considers a loan secured by land as the most favourable way of acquiring property and, therefore, calculates the payments so that they

<sup>35</sup> *Labour Conditions in Indo-China*, pp. 197 ff.

<sup>36</sup> *Bulletin économique de l'Indochine*, 1938, Vol. II, pp. 747-48.

<sup>37</sup> Pierre Gourou, *op. cit.*, Part III, pp. 347 ff.

<sup>38</sup> *Bulletin économique de l'Indochine*, p. 750.

cannot be paid out of the produce of the land.<sup>39</sup> French legislation has tried to restrict the legal Annamite rate to from 3 per cent per month to 8 per cent per annum, but in vain, because it is impossible to regulate a social disequilibrium by legal norms without an adequate economic policy.

In Indo-China, as elsewhere, the landlord-moneylender is the worst influence on the general agricultural development. The landlords depend far more on the interest from the loans they make than on the production of their rice fields. That explains why owners of large estates prefer to divide their lands into small farms and lease them to tenants for primitive, traditional cultivation.<sup>40</sup> Gourou emphasizes that usury is the surest and most economical means of rounding out a domain, that the debtors with a status similar to servitude often seek escape in flight, and that indebtedness on this scale destroys stability and reduces the intensity of land use.<sup>41</sup> Certainly a system of land utilization based on money interest and not on agricultural production must finally reduce the productivity of the entire economy.

Cochin-China, the centre of landlordism, is also the focal point of usury and general indebtedness. Gourou quotes a report from 1937 by M. Roger Sylvestre, the colonial administrator of the province of Bac Lieu, as stating :

There is no one who is neither borrower nor lender. The *Tâ dien* (tenant) borrows from his landlord, the latter, if need arises, from a large capitalist; the coolie will establish credit with his foreman; the latter with his employer; the fisherman with the fisheries contractors; the small trader

<sup>39</sup> Pierre Gourou, op. cit., Part III, p. 347. The usurers were also able to interfere in the activities of the licensed pawn shops by intervening in the traffic of pawn shop tickets (*Labour Conditions in Indo-China*, pp. 208 et. seq.) The Chettyars in Indo-China seem to be at least as greedy as in Burma. Their rates seem to be moderate, nominally 12 per cent per annum, but by adding the interest to the capital—the total sum is shown on the receipt—and dividing this total into twelve equal fractions to be repaid one at a time, the actual rate of interest may easily be double the figure indicated to the farmer.

<sup>40</sup> Charles Robequain, op. cit., p. 193, indicates that French colonists shared in the money lending practices of native landlords.

<sup>41</sup> Pierre Gourou, op. cit., Part III, pp. 345-47; *Labour Conditions in Indo-China*, pp. 208 ff.

with the large merchant. Those with an independent calling, artisans and officials, contract with the Chinese merchants or with the usurer.<sup>42</sup>

The situation in Tonkin is not very different. Gourou describes the lot of the Tonkin peasant as follows :

The Tonkin peasant is led to borrow by poverty ; when he has exhausted his resources following a bad harvest, he has to borrow. . . . The interest on cash loans is extremely variable, generally ranging between 3 and 10 per cent per month. The lender covers himself by a mortgage on the harvest, or goods of the borrower ; for loans in kind, the interest paid, also in kind, varies from 30 to 50 per cent for one rice-growing season ; that is to say, from 60 to 100 per cent per annum.<sup>43</sup>

Even in Cambodia, where conditions are more favourable, the absence of equitable credit institutions has rendered a tempting opportunity for exploitation of the native farmers. The Chinese trader generally takes a rate of 100 per cent for a six to eight-month loan. If the peasant does not repay on time, the Chinese creditor takes the whole (surplus) of the harvest himself, pays the taxes, and reduces the peasant to a form of peonage.<sup>44</sup>

Though the French authorities recognized very well the oppressed position of the heavily indebted Annamite peasant, they still fought usury mainly by legal measures and, therefore, without success.<sup>45</sup> Where they tried to combat it indirectly by providing credit at moderate rates,<sup>46</sup> they also failed be-

<sup>42</sup> Pierre Gourou, pp. 344 ff.

<sup>43</sup> *Ibid.*, p. 281.

<sup>44</sup> *Ibid.*, pp. 386-87.

<sup>45</sup> A decree of July 17, 1926, restricted the recourse to imprisonment or debt in the case of commercial matters. The Decree of May, 1934, fixed the legal rate of interest at 5 per cent, and the maximum rate by agreement at 8 per cent. In order to circumvent evasions of this law, the Decree of October 9 and December 2, 1936, required official witnesses to private loan contracts and severe punishment for moneylenders violating the Decree.

<sup>46</sup> In Cochinchina, a mutual agricultural credit system has existed

cause they did not reach the level of the most urgent need for money.

There have been different credit institutions in various parts of Indo-China, but they have all been based more on government guarantees rather than on their own resources. The losses were generally met by the bank of issue. In Cochin-China, where property rights were better cleared by the more efficient surveying system, a regular agricultural credit system was maintained in the form of mutual credit societies. However, according to their regulations, loans could be granted only with land as security, and the credit activities, therefore, did not reach the level of the tenants. Certainly, these institutions financed the extension of rice cultivation, but, at the same time, they fostered the process of land concentration. In addition, they gave the landlord an opportunity to lend to distressed tenants and farmers, at exorbitant rates of interest, the money he had borrowed at cheap rates. On the whole, the credit system in Indo-China, though called a mutual credit system, did not ease the situation, but actually aggravated it by increasing the tenant farmer's need for credit.

In this connection it must be mentioned that the popular agricultural credit system in Annam and Tonkin also provided loans at a rate of 12 per cent per annum on personal security or movable property, but the scale of these loans was limited, as they were granted only for periods up to eighteen months and in amounts not exceeding 500 piastres. In 1939, loans were granted by thirteen provincial banks up to a total of 2 million piastres. During the depression, however, the loans since 1910. In 1936, the loans granted amounted to 8.5 million piastres, on a capital of around 1 million piastres; the rate of interest was restricted to 12 per cent and later reduced to 10 per cent. A People's Agricultural Credit Scheme, as in the Netherlands Indies, was introduced in Tonkin and Annam in 1926. Later, it was supplemented by a system of advances on the security of agricultural land, as in Cochin-China, to administer the credits granted to mutual aid societies set up under Annamite and Cambodian legislation. A central supervising body, the Mutual Agricultural Credit Office, was established in 1933. The system comprised a communal bank, provincial banks and a central fund. The place of the communal banks was provisionally taken by communal committees of mandarins, whose activities in examining the loan applications were not always advantageous for the bank. See *Labour Conditions in Indo-China*, pp. 211, 213 ff.; Robequain, op. cit., pp. 168 ff.

based on personal security and movable property decreased considerably, as the steady fall in the quotations for rice and other products reduced the borrower's capacity to give security.

The report on labour conditions in Indo-China<sup>47</sup> gives various reasons for the deficiencies in the French credit system: the excessive independence of the various organizations, the alarming discrepancy between the capital available and the loans granted, and especially the inability to reach the small producer. The system, though often called a mutual agricultural system, was actually based not on mutual aid but exclusively on government funds and guarantees. It cannot be considered a cooperative enterprise, as no joint risk was involved. Consequently, no cooperative spirit could develop.<sup>48</sup> As the small farmer is not in a position to save enough money to refund a loan, the government has to come to his rescue, and government control, instead of mutual supervision, therefore has dominated the credit system.

Pierre Pasquier, Governor-General of Indo-China, illustrated the defeat of the credit system in the following statement :

If only most of the loans had been granted directly to the needy *nhaqué* or the poverty-stricken *tâ dien* ! The depressing fact is that the credit facilities so far granted have had no psychological or economic effects. It has indeed proved almost impossible to bring these advances within the reach of the small farmer, the *tâ dien* or *nhaqué*, except through the large or medium-scale land owners. . . . All the efforts made by my administrative officers to improve the situation of these poor people are therefore brought to naught ; any attempt to lower the cost of production of rice by reducing the interest on loans is doomed to failure in advance. The large and medium-scale land owners charge a tremendous

<sup>47</sup> *Labour Conditions in Indo-China*, pp. 214 ff.

<sup>48</sup> *Ibid.*, pp. 280 ff., is optimistic of the prospects of a future cooperative movement in Indo-China, as social traditions have created customs and institutions which might be considered as some sort of spontaneous cooperation (for instance, communal lands, mutual aid in connection with funerals, assistance in the case of floods, and so on). The report emphasizes in this connection the old Annamite tax system ; taxes are fixed as a lump sum for the whole village, which remains responsible for dividing it and collecting the individual taxes.

commission, equal to the difference between the interest charged on loans by the rural funds and the rates at which they lend money directly or which they charge for standing security. Their maleficent influence prevents any direct contact between the authorities and the rural masses.<sup>49</sup>

At the outbreak of the recent war, the peasants of Indo-China were in a helpless state of dependency. For years, they had been forced to approach the landlord or moneylender for advances, and always they had had to be at the disposal of their masters for labouring services of any kind; always indebted, they had no chance ever to repay the loans, and the accumulated interest soon multiplied the capital debt.

Agriculture in Indo-China has gradually evolved...to a position in which there are two very distinct elements: on the one hand the large and medium-sized land owners—Annamite or French—who exercise their influence through the authority of the mandarins, the local councils and chambers of agriculture, etc., their associations, the press and the credit system; on the other hand the working masses, smallholders, tenant-farmers, share-farmers, wage earners, all more or less subject to the other group.<sup>50</sup>

#### LEVEL OF AGRICULTURAL CULTIVATION

More than in any other country in Southeast Asia, the most intensive application of human labour is still the essential way of land cultivation in Indo-China. Agricultural machinery is still unknown and work animals are much less used than in Burma or Siam. Gourou reports the struggle for existence between man and his animal in the Tonkin delta, where a labourer is paid 2 francs a day and a buffalo 4 francs.<sup>51</sup> This misproportion in the evaluation of human and animal labour

<sup>49</sup> Ibid., p. 215. Address to the Grand Council of the Economic and Financial Interests of Indo-China, on November 25, 1931.

<sup>50</sup> Ibid., p. 193. The report asserts that, according to certain writers, the policy of the French administration that resulted in such unfavourable social conditions was partly carried through in order to win the upper class of the inhabitants for French rule.

<sup>51</sup> Pierre Gourou, *op. cit.*, Part III, p. 241.

is responsible for the typical Tonkin idyll, which shows a man working in a rice field while a buffalo is resting in a water hole. Cultivation in Indo-China is typically small-scale. The large estate owners are not in favour of large-scale farming, but prefer to use the most primitive methods of cultivation in spite of the tremendous amount of labour involved. Hereby the fact of excess population is partly concealed. Even the application of the most elementary technical methods would reveal the true extent of the existing excess of population. The surplus of labour in Tonkin is estimated at more than twice the amount of labour needed for cultivation of all arable land.<sup>52</sup>

The Annamite is skilful as a cultivator, but he is by experience deeply convinced of the worthlessness of his labour, and therefore does not even try to obtain high yields at low costs. This fatalistic attitude of the farming population blocks the way for agricultural progress and proves that agricultural improvements presume a certain capacity for economic calculation which is not reached on a level of ill-paid labour.<sup>53</sup>

The inferiority of the Annamite cultivation is largely due to lack of selection of seeds, inefficient agricultural equipment, and lack of fertilizer. This results in a low average yield and mediocre produce without any standardization.<sup>54</sup> The response of the world market is the low quotation for rice from Indo-China.

The French administration tried to raise agricultural standards by practical education, school gardens, and technical services for seed selection, cattle rearing, and other procedures. In 1929, a rice office was established to study and organize the rice cultivation of the country. Finally, an Institute of Agricultural Research was founded, dealing mainly with the crops of higher altitudes, such as tea, coffee, rubber, and cinchona. The endeavours of the administration, however, met with little success, since, under the given circumstances, the agricultural educational work was not coordinated with positive measures for the solution of the credit problem. For example,

<sup>52</sup> *Labour Conditions in Indo-China*, p. 219.

<sup>53</sup> Pierre Gouron, op. cit., Part III, pp. 294-95.

<sup>54</sup> In 1928, the yield per hectare was 12 quintal in Indo-China; in Java, 15; in Siam, 18; in Japan, 34. There is no justification for such a low output in Indo-China. See *Labour Conditions in Indo-China*, p. 204.

it is useless to explain proper methods of fertilizing so long as the price of fertilizer is beyond the economic capacity of the peasant and so long as credit at reasonable rates is unobtainable.<sup>55</sup>

Not even the public works initiated by the administration to increase the rice acreage and provide the fields with adequate water supply have been able to raise the general agricultural level of the colony. Nevertheless, these works were of great importance for Indo-China, especially for Cochin-China, where the rain is sufficient but not dependable and where even heavy rainfalls do not supply the uninterrupted flow of water which can be provided by irrigation.

The French were especially active in construction works in Cochin-China, where the problem was to reclaim new land. Here, French engineers greatly improved and extended the few canals dug by the Chinese and Annamites. In 1930 alone, about 165 million cubic metres of soil were excavated, and it can rightly be said that these dredging operations are among the great works in technical history.<sup>56</sup> They increased the rice acreage from 376,000 ha. in 1868 to 2.3 million ha. in 1940. In addition, the canals became essential communication lines between the different settlements in the region. The increase in the capital value of the soil was more than thrice the expenditures. Between 1880 and 1937, the value of the cultivated area in Cochin-China increased by 421 per cent, the population by 267 per cent, but the rice export from Saigon by as much as 545 per cent.<sup>57</sup> However, the work is far from being completed. There are still no transverse canals between the principal arteries and the secondary and tertiary ones, small irrigation installations which the peasants themselves could easily construct if they had initiative. By means of transverse canals, the whole area could be drained and the tides regulated and used for irrigation or drainage of surplus

<sup>55</sup> Charles Robequain, *op. cit.*, p. 228. No official statistics are available regarding secondary crops, as for instance, corn, sweet potatoes, and beans. However, they do not seem to have considerable importance, with the exception of corn. See *ibid.*, p. 230.

<sup>56</sup> *Labour Conditions in Indo-China*, pp. 199 ff.

<sup>57</sup> The rice exported from Saigon is virtually the crop of the new areas in Cochin-China. See also Robequain, *op. cit.*, p. 220, and *Labour Conditions in Indo-China*, pp. 199 ff.



water, according to requirements. Robequain asserts that only a small number of rice plantations along the main canals are actually benefited by the tidal changes in the water level.

In contrast with Cochin-China, the problem of the overpopulated Red River delta (Tonkin) has been to increase output.<sup>58</sup> The Red River has always had to be tamed by a system of dikes. However, the old Annamite dike system had many defects and time and again the floods of the river broke through and caused starvation and famine. After one such disastrous flood in 1927, the French administration reconstructed the dikes and thus eliminated one of the main reasons for the recurrent periods of starvation in the Tonkin delta.

Another great problem for rice cultivation in Tonkin and Annam is drought. The rainfall in this region is very irregular and undependable, and droughts are not uncommon. In the thirties, the French administration began the construction of several giant irrigation works. The level of certain rivers was elevated by dams and water was led to the fields by a system of canals adjusted to the topography. An area of about 250,000 ha. is now fully irrigated, and schemes for irrigating an additional 500,000 ha. have been prepared. In Annam, dam and canal net works providing gravity irrigation for around 90,000 ha. have been constructed, and even in Cambodia similar projects have been completed. Since 1933, the average yield per hectare for a single yearly crop in Tonkin has been between 500 and 600 kg. of paddy, but where irrigation has made possible the harvesting of two crops, the yield in the future may be increased to between 1,800 and 2,000 kg. per hectare. Though the attainable increase of the rice output in the Tonkin delta is estimated at 300,000 tons annually, it is still doubtful whether the new irrigation system will pay because of the disproportionately high expenses per hectare.<sup>59</sup>

The French administration considers the drainage and irrigation works as the main weapon in the war against poverty and misery in Indo-China. However, this is merely a technical weapon, while the real problem has broad economic and social

<sup>58</sup> *Labour Conditions in Indo-China*, pp. 201 ff.

<sup>59</sup> *Labour Conditions in Indo-China*, pp. 202 ff. ; Robequain, pp. 222 ff.

implications. The indebted Tonkin and Cochin-China peasant can hardly be influenced by impressive engineering as long as his own economic problem is not solved. Robequain mentions the expected economic results of large-scale irrigation, but appeals at the same time to the Annamite farmer for cooperation. He maintains that the promised results are impossible if the peasants remain unwilling "to take the trouble to cultivate their rice fields properly".<sup>60</sup> But it may be doubtful if they will ever take this "trouble" under the existing system of land tenure. It is a fact that, in the last thirty years, the volume of rice production in Indo-China as a whole did not increase sufficiently to match the population increase (more than 40 per cent). The average rice production in 1935-40 was only 300,000 tons more (not even 10 per cent) than the average of 1910-15. This comparatively small increase can be explained by the low agricultural level of the distressed peasant, which counteracted the technical progress embodied in the construction works. For example, while the rubber plantations based on French capital and scientific research expanded and flourished, the cultivation of rice and other native crops, based mainly on native cultivation methods, remained stagnant.

#### LABOUR

In countries like Indo-China, the position of labour is mainly decided by the general low level of living of the agricultural population. Consequently, progress through labour legislation can only be obtained when social conditions in general are improved at the same time. The importance of the labouring population in the social pattern of Indo-China can hardly be overestimated.

The special problems of labour in Indo-China are the uneven distribution of population and the demand for labour by the large rubber estates in the new provinces in the south. The rapid development of the large rubber investments has necessitated an early solution to the labour problem of the plantations. Even today, contract labour is the usual type of plantation labour in Cochin-China and Cambodia; it is not encountered either in Tonkin or Annam.

<sup>60</sup> Charles Robequain, *op. cit.*, p. 227.

Until the slump, there was a phenomenal increase in the number of coolies imported to the south : 3,684 in 1925, 17,777 in 1926, and 18,000 in 1927. The planters were strong enough to keep the administration out of the recruiting business, which was in the hands of unscrupulous labour agents. Virginia Thompson<sup>61</sup> reports that sorcery, the use of drugs, and gross misrepresentation of the labour contract by the agent have characterized labour hiring. The miserable coolie has often been forced to consent to what is really three years of slavery. Agents have earned up to 12 piastres for each coolie hired, many of whom later died on the malaria-infested plains of Cochin-China.<sup>62</sup> The coolie was completely at the mercy of the native foreman, or *cai*, who collected a commission on his wages and induced the coolie to borrow from him at excessive rates. He profiteered on food, medical supplies, and treatment. Brutalities resulting in wholesale desertion or suicides were frequently reported.<sup>63</sup> Often, the planters administered their own justice and police control, thus increasing the social tension on the plantation. The assassination of the head of the labour recruiting office on the eve of the Annamite New Year in 1929 revealed the feelings of the peasants against the labour situation in Indo-China. A letter was pinned to his body listing the crimes which had led to his execution.

This ruthless recruiting system soon aroused general resistance especially in Tonkin. Annamite nationalists successfully used the return of exhausted coolies in their fight against plantation capitalists. The northern provincial authorities supported their viewpoint on the ground that a large-scale exodus of labour would inevitably bring about a rise in labour costs.

The government, however, did not abolish direct recruiting, as requested by the Chamber of Agriculture in Tonkin and by Annamite nationalists, but introduced a system of authorized recruiting which forced plantation owners to state the real labour conditions under which the migrating workers would

<sup>61</sup> Virginia Thompson, *French Indo-China*, pp. 153 ff.

<sup>62</sup> In 1927, the mortality on southern plantations was from 4 to 5 times as great as the average death rate.

<sup>63</sup> Between January 1, 1928, and June 30, 1928, more than 1,700 workers deserted, out of a total of 30,000 (*Labour Conditions in Indo-China*, p. 84).

work.<sup>64</sup> Recruiting was permitted only in specified areas and by recognized agencies. Government medical examination and minute control in the ports of embarkation gave additional security against abuses. The workers remained continuously under medical supervision, and the employers were obligated to render substantial medical care.

The contracts had to be in accordance with standard contracts, guaranteeing a minimum of well-being to the immigrants: three years' employment, ten hours daily work, rest periods, wage regulation, provisions for women and children, and food rationing (700 grams dry rice per person). Furthermore, a compulsory deferred pay system (5 per cent wage deduction) was introduced.

Supervision was in the hands of civil administrative authorities. However, no special labour inspectorate was established. The report of the International Labour Office<sup>65</sup> criticizes this omission and states that the administrative officer is generally uninterested and lacks the time to study labour conditions. His inspection is frequently unsatisfactory, and his relationship with the planters is "too intimate and too friendly" to permit him the independence of mind and decision which is often necessary. Moreover, his visits are announced in advance, thereby destroying some of their effectiveness.<sup>66</sup>

There can be no doubt, however, that government supervision of the recruiting system has had some results. Labourers have become interested in the plantation where part of their wages are deposited, and fewer, therefore, desert. But of the greatest importance is the efficient malaria control in all public works projects supervised by the officials and doctors of the Pasteur Institute of Indo-China. The general assistance given by the Institute has largely eliminated the demoralizing influence of this disease. As a result of malaria control, plantations have reported that cases of unfitness for work have decreased by 20 to 30 per cent and that the efficiency of labour has increased by 40 per cent.<sup>67</sup> The mortality rate decreased

<sup>64</sup> Legislation dated October 25, 1927, supplemented in 1928 and 1930.

<sup>65</sup> *Labour Conditions in Indo-China*, p. 268.

<sup>66</sup> *Ibid.*, p. 264.

<sup>67</sup> *Ibid.*, pp. 90-91; but the report stresses that the situation still necessitates increasing efforts. The number of cases of malaria treated

from 5.4 per cent in 1927 to 2.32 per cent in 1930. This is still a very high death rate in view of the fact that it involves persons in the prime of life who have passed three medical examinations.<sup>68</sup>

It is difficult to estimate fully the success of this labour legislation, since the recruiting of workers was stopped during the depression. Aside from this, however, it is a recognized fact that industrial prosperity generally worsens the health conditions among plantation workers. Mortality increases because the expansion of rubber plantations involves the most exhausting and dangerous work, namely the clearing of the bush. The depression eliminated this factor.

Legislation concerning non-contract labour, of great importance for Tonkin and Annam, was first introduced in 1936. It was equally important for the plantations in central and south Annam and Laos, where there was a rather limited demand for labour, which could be easily supplied by the near-by overcrowded districts. In Indo-China, as in the Netherlands East Indies, contract labour has been the first target of labour legislation, as the system can be maintained only when a minimum of social security is guaranteed. The extension of effective labour legislation to the field of free labour is generally the second step.

The victory of the Popular Front in France (1936) brought about this broader social legislation. A wave of strikes rolled over Indo-China. Labour unions were established, and the country experienced, for the first time, an extensive social movement. The Decree of December 30, 1936, gave Indo-China a series of labour laws that granted fixed rates for non-contract agricultural or industrial labour. The Decree stipulated compulsory minimum wages, limited working hours, prohibition of fines, prohibition of night work for women and children, regulations for company stores, for health and safety, for labour inspection, and other similar items. Employers were, naturally, opposed to the introduction of these reforms, and, at times, the opposition was so strong that the enforcement of the laws had to be suspended, which, however, auto-

increased from 43 per cent of the average number of workers during the second half of 1933 to 57.9 per cent in the first half of 1934.

<sup>68</sup> Ibid., p. 92.

matically resulted in the rise of new radical reform movements. The report of the International Labour Office refers to this resistance of the employers with the words that "they do not seem prepared to admit that social protection should be considered, not as an optional charge depending on the margin of profit, but as a strict obligation for which allowance must be made in the initial calculations of any business".<sup>69</sup>

The social legislation, however, did not change the general situation of the day labourer, who is still subject to usury by the *cai*, the shopkeeper, or the professional moneylender. His position is particularly weak, as he is usually employed only one day out of every two.<sup>70</sup> Generally, he can pay off his debts by work, but for every dollar he borrows, he owes ten days of work, which would otherwise have brought him two dollars and fifty cents. He can also pay off his debt by putting to work one or more of his children, who are required to live with the creditor—a rudiment of slavery. It would take us too far afield to mention all the different methods of usury which are reported, some of which stipulate interest rates for petty loans varying from 240 per cent to 3,650 per cent per year.<sup>71</sup>

Wage reductions during the slump and the fight for reforms have frequently resulted in strikes and turbulent dissatisfaction. Plantations reported many incidents which in some cases led to bloodshed.<sup>72</sup>

Under the existing circumstances, the labour pattern in Indo-China can probably be changed only by a broad resettlement policy. Furthermore, the contract system, though it guarantees a higher level of social protection, should be abolished, as it considerably restricts the personal freedom of the labourers. Already before the war the colonial administration considered the contract system as merely a temporary arrangement and endeavoured to develop a spontaneous migration that would gradually provide an adequate voluntary labour supply to the plantations in Cochin-China.<sup>73</sup> Some steps

<sup>69</sup> *Labour Conditions in Indo-China*, pp. 134, 262, and especially p. 266; Robequain, op. cit., p. 78.

<sup>70</sup> Paul Bernard, *Le problème économique indochinois*, pp. 23-24.

<sup>71</sup> Pierre Gourou, op. cit., Part III, pp. 348-49.

<sup>72</sup> *Labour Conditions in Indo-China*, pp. 148-49.

<sup>73</sup> Ibid., p. 264.

have been taken to settle workers in the vicinity of the plantations, but no statistics are available on the success of this plan. The report of the International Labour Office recommends a closer approach to non-contract labour, without abandoning the benefits of contract labour.

LEVEL OF LIVING AND HEALTH CONDITIONS;  
INDIRECT TAXES

The Annamite society today displays the typical features of a disintegrating native community—very similar to Java and other countries in Southeast Asia. The Annamite bourgeoisie is economically based on rice cultivation and moneylending—a typical basis for wealth in an area open to commercial agriculture but without adequate credit facilities. The growth of this upper class was paralleled by a corresponding increase in the agricultural proletariat, because its moneylending activities excluded the introduction of agricultural machinery even if this had been expedient from an economic point of view.<sup>74</sup> The proletariat in Indo-China increased considerably under the French rule, though this development occurred “unwittingly and contrary to its own interests”.<sup>75</sup>

The living conditions of this proletariat differ largely, depending on the place of the labourer in the economic pattern of the country. But the border lines are fluctuating, and the individual labourer has no stable existence. In spite of the general features of poverty and misery, there are considerable differences in the level of living of a peasant on his small plot in Cochin-China and of a Tonkin labourer contracted for three years' work on a rubber plantation, or of an occasional labourer in a coal mine near his village. It is hardly possible to evaluate them correctly by means of statistics. But the whole proletariat faces starvation if the harvest is bad or if an accident involves unforeseen expenses.<sup>76</sup>

In addition, the regional differences are important. The normal annual rice ration per person in Tonkin is only 136 kilograms, in comparison with an average of 250 kilograms for

<sup>74</sup> Charles Robequain, *op. cit.*, p. 86.

<sup>75</sup> *Ibid.*, pp. 85 ff.

<sup>76</sup> Paul Bernard, *op. cit.*, p. 25.

Indo-China as a whole. The Tonkin peasants are generally undernourished. Substitute products such as Indian corn and tubers allow them to subsist, but their conditions are miserable.<sup>77</sup> "Far too many children still die in infancy, not only on account of inadequate hygiene arrangements, but also because they are nursed by exhausted mothers...their bodies are often puny and stunted. The result of more abundant and more rational food may be seen in the healthy look of servants and soldiers, who are fed by the European."<sup>78</sup>

With regard to the relationship between wages and cost of living, the report of the International Labour Office states that the fall recorded in the cost of living for the indigenous working class amounted to 20 per cent from 1931 to 1933, while the fall in wages fluctuated only between 7 per cent and 17 per cent. However, the report eliminates the possibility that the purchasing power of wages actually was increased, by pointing to the basic fact that at no time, either in 1930 or in 1936, has the budget of the Annamite worker shown any surplus, and that it has always been impossible for him to save anything. The cost of food alone accounts for three-fourths of his expenditures.<sup>79</sup>

The tenant farmer is hardly better off. Paul Bernard reports on the budget of a tenant cultivator family in western Cochin-China, with an area of 5 ha. and an annual consumption of 250 kgs. of rice per member. The budget is as of 1931, when the slump had not yet reached its lowest point. The expenditures, which are considered a strict minimum, amounted to 164 piastres, while the total income of the family, including extra money earned, amounted to only 154 piastres.<sup>80</sup>

Certainly, the times of death-dealing famines are long past, but the Annamite population is undernourished in many districts, especially in the north, and at more or less regular periods of the year. This causes reduced resistance against epidemics and a seasonal increase in the incidence

<sup>77</sup> *Labour Conditions in Indo-China*, pp. 218 ff.

<sup>78</sup> Charles Robequain, *L'Indochine française* (Paris, 1935), p. 167. Virginia Thompson, *French Indo-China*, p. 149: They enjoy release from hunger only at harvest time.

<sup>79</sup> *Labour Conditions in Indo-China*, pp. 145 ff.

<sup>80</sup> Paul Bernard, *op. cit.*, pp. 22-23.



of endemic diseases, especially malaria, which first of all affect the poorly nourished part of the population.<sup>81</sup> The Pasteur Institute of Indo-China and the government have doubtlessly made a remarkable effort in combating diseases by general and individual prophylaxis, and by improving the water supply. But here, as everywhere else, nutrition remains the basic problem for the generally poor health conditions. In Indo-China, it is primarily a question of quantity of food, and only secondarily is it a problem of quality. However, the quality problem also can be traced back to the state of poverty, because protein-rich items (meat, fish, and so on) are inaccessible without increased purchasing power.<sup>82</sup> This situation is clearly illustrated by the statistics on infant mortality. In 1936, the death rate for children under one year was 240 per thousand in Saigon, and 230 (1937, 210) in Hanoi. Though it has decreased considerably in the last decade, it is still very high.<sup>83</sup>

Public health in Indo-China was also affected by the French internal revenue system which was most undemocratic and contributed to the misery of the population. It was based on indirect taxes, which were intended to make the colony financially independent of France, which goal has been practically obtained.<sup>84</sup> In 1936, around 40 per cent of the colonial revenues were still derived from indirect taxes and monopolies.<sup>85</sup>

<sup>81</sup> League of Nations Health Organization, Intergovernmental Conferences of Far Eastern Countries on Rural Hygiene, 1937, Preparatory Papers, *Report of French Indo-China*, Geneva, 1937, pp. 92 ff.

<sup>82</sup> *Ibid.*, pp. 95 ff.

<sup>83</sup> *Annuaire Statistique de l'Indochine*, 1936-37, Hanoi, 1938, pp. 29-30.

<sup>84</sup> Paul Doumer, Governor-General from 1897 to 1902, put the colony on a paying basis by the introduction of a taxation system based largely on monopolies. He created a federal budget with indirect taxes and five local budgets from direct taxes. See Doumer, *Situation de l'Indochine*, Hanoi, 1902, p. 9. He practically established the Indo-Chinese Union by the strong federal framework of reforms. However, the entire system of monopolies roused much opposition in France and Indo-China, especially in the case of the opium monopoly, which involved a great moral problem. It was subject to several reforms. On account of general political considerations, the distilling monopoly for Tonkin and Annam, which had contributed to large-scale corruption, finally was lifted, and free distilling by licensed companies and individuals was granted.

<sup>85</sup> *Annuaire Statistique*, p. 262.

Administration of the monopolies was sabotaged by fraud, corruption, and inadequate profits, which caused terrific price increases. The Annamite village notables represented the most effective contrabandists, protected by their elevated position. Seen from the point of view of public health and nutrition, the monopolies had different effects. The opium monopoly kept the price of legal and illegal opium so high that it was unobtainable for the bulk of the rural population. Actually, only Chinese merchants and traders and well-to-do Annamites smoke opium, which consequently plays a very small part in the mental pathology of Indo-China.<sup>86</sup> The alcohol monopoly, though maintained only as a kind of sales monopoly, raised the price exorbitantly and burdened the narrow budget of the Annamite, who needs alcohol for religious rites. In the budget of 1936, an amount of about 5 million piastres appeared as consumption tax from alcohol.<sup>87</sup>

The salt monopoly was very poorly organized. Consumers had to pay the French holding company for the concession, as well as the Chinese lessor instead of only the Chinese producer, as had been customary in the past. With the introduction of the salt monopoly, prices were tripled. In addition, the provisioning of the interior of the country was very inadequate. In 1936, the salt monopoly added around 5 million piastres to the budget. Though the distribution of salt was improved later on, it was still inadequate in many parts of the interior before the war, and the inadequate consumption of salt affected the health of the natives, especially the children. Certainly, the monopoly system was not one of the main reasons for the poverty and misery of the native population, but it narrowed the margin of their small budgets. It increased discontent and was one of the major grievances of the Nationalist Party before the war.<sup>88</sup>

#### CONCLUSIONS

The economic and social status of Indo-China on the eve of

<sup>86</sup> League of Nations Health Organization, *Report of French Indo-China*, pp. 127 ff.

<sup>87</sup> *Annuaire Statistique*, p. 221.

<sup>88</sup> Virginia Thompson, *French Indo-China*, pp. 182 ff., 188-91.

World War II was delicate in more than one respect. Certainly, the outstanding technical contribution of the French colonial administration had eliminated periodical famine and conquered entire provinces for rice cultivation. But this performance was unable to relieve the poverty and misery of the population which increased as a result of the improvements in sanitary and medical control.

The still prevailing principle of "assimilated" economy—a clear formulation of economic dependence—must be considered responsible for the failure of the French administrative policy in the colony. It has kept the native population at a low level of agricultural development and tied to a system of production where human labour competes successfully with animal labour. By neglecting the economic and social progress of the population, the economic effects of the technical improvements were crippled. The conditions of the country were determined by land scarcity in the north, landlordism in the south, and the unsolved credit problem generally.

It is to the credit of French students that their statements strongly reflect the state of social distress and human misery in the French colony. The manifold contradictions in economic and social developments have indeed revealed "that there is something radically wrong with a system which to an ever greater extent imposes Western economic methods and increased requirements on the Indo-Chinese worker, but which at the same time tends to result in a constant reduction of his purchasing power".<sup>89</sup> In the years immediately before the war, the numerous landless proletariat which had grown up as a result of the overpopulation in the Tonkin area and of the land concentration in Cochín-China constituted a social danger.<sup>90</sup> It was possible to control the floods of the Red and Mekong rivers, but it proved to be impossible to make productive use of the abundance of human labour, which would have improved the general level of living.

Indo-China, with its uneven distribution of population, has some similarities with the Netherlands East Indies. Indeed, if we compare Tonkin with Java, and Cochín-China with the outer provinces, we find similar problems of excess population,

<sup>89</sup> *Labour Conditions in Indo-China*, p. 148.

<sup>90</sup> *Ibid.*, p. 193.

minute subdivision of land, native village economy on one side, and the problem of migrating labour on the other. We also find the social and psychological problem of transferring the excess population from the overcrowded provinces to newer, less populated land, and even the same restraints and difficulties. However, while the problem in the Netherlands East Indies seems too large to control, the far smaller proportions in Indo-China suggest a practical solution. Its population problem could be solved by an extensive land settlement scheme, well-financed and efficiently organized. As the report, *Labour Conditions in Indo-China*, says :

Money is necessary to set up a central settlement organization and maintain a staff of specialized local officials ; money is necessary for the transport of the emigrants ; money is necessary for the preliminary surveys, for the construction of villages and the making of roads, for clearing and drainage, and for the advances of rice and cash which must be granted to the settlers. The aggregate of all these sums may well be some hundreds of millions of piastres. . . . Land settlement in Indo-China would therefore seem to be essentially a matter of credits.<sup>91</sup>

Cooperative organizations properly adjusted to Annamite customs and way of thinking will ease the process of large-scale settlements.<sup>92</sup>

<sup>91</sup> Ibid., p. 279.

<sup>92</sup> The French administration realized very well the necessity of organized migration for the population of the Tonkin area, but was never able to dispose of amounts sufficient for even limited action.

Resettlement experiments during the first thirty years of French administration were frustrated, as the Annamite peasant did not respond to the call for individual migration. He was restrained by attachment to his native village and the ancestral rice fields, and by religious and superstitious prejudices. Therefore, the French changed to a policy of collective migration, which could more easily overcome a part of the psychological handicaps. Finally, in 1937, they started the transfer of 500 families to the province of Rach-Gia, where two villages were to be established. There were also some large-scale programmes, for instance, the settlement of 50,000 Tonkin families in the Transbassac. However, these plans never went beyond the initial stage, mainly because of lack of funds. (*Continued on next page*)

A reconstruction of Indo-China's economic and social life is as much a psychological as an economic problem. Resettlement policy will have to be coordinated with a serious endeavour to develop the productive forces of the population without any consideration for an "assimilated" policy. It will have to introduce a higher valuation of human labour, based on adequate education and training. However, colonial history in Indo-China indicates that this can hardly be achieved without basic political and economic changes.

Developments in the post-war period have not yet disclosed a solution to the political and economic problems. Immediately upon the end of hostilities in the Pacific, the Annamite Republic, Viet Nam, was declared (September 2, 1945), and was at once attacked by France. But on March 6, 1946, France was forced to recognize Viet Nam and drew up a plan according to which an Indo-Chinese Federation was to be established within a French Commonwealth. This Federation was to consist of the free and independent Viet Nam, composed of Tonkin, Annam, and Cochinchina, and the constitutional monarchies Cambodia and Laos, which are more or less controlled by France. But the great French interests in Cochinchina resented such a solution. Consequently, France recognized only Tonkin and Annam as belonging to Viet Nam, while Cochinchina was established as a separate republic

In addition, migration to the southern plains is a very complicated problem. The Cochinchinese dislike the Annamite mass migration. Though the land is lying waste today, they are afraid of land scarcity that might occur after fifty years at the present rate of population increase and land concentration. The Annamite, on the other hand, is afraid of the rice cultivation methods different from what he was accustomed to in Tonkin.

Meeting these objections, the government recommended "select" or "model" colonies and asked the big land owners of Indo-China to establish colonies of Tonkin labourers on their property. However, this kind of settlement will hardly solve the population problem, and will not contribute to the establishment of an independent labour and farmer class.

See *Labour Conditions in Indo-China*, pp. 222 ff; Robequain, op. cit., p. 64. The former (p. 238) asserts that a real, large-scale immigration from Tonkin can succeed only if the adequate psychological conditions are established (for instance, retaining of the Annamite's share in the communal property in their native village for a transitional time).

which by a popular referendum should decide for or against joining Viet Nam.

Viet Nam, however, is not willing to accept the possible exclusion of Cochin-China, the natural outlet for overpopulated Tonkin and Annam. Therefore, it reacted vehemently against the French administration for postponing the planned popular referendum in Cochin-China until "order is restored", and is sceptical that Cochin-China will ever be given the opportunity of an honest plebiscite.

But this is not the only reason for disagreement between France and Viet Nam. Viet Nam does not want French leadership in matters of defence and foreign affairs and is not satisfied with the status, offered by France, of merely administrative autonomy. Consequently, it rejected the French proposals in September 1947. France then refused to negotiate with the legal government of Viet Nam and tried to reach an agreement with Bao Dai,<sup>93</sup> the former Emperor of Annam, thus once more attempting to maintain French influence and securing French economic interests by indirect rule.

Since December 1946, an actual state of war has existed between France and Viet Nam. However, while the French armies secured the highways and occupied the cities, many thousands of villagers have deserted their rice fields and are fighting as guerrillas. This has brought about a paralysis of the entire economic life and has postponed the urgently needed political and economic reorganization of the country and the rehabilitation of its distressed population.

<sup>93</sup> Bao Dai abdicated in August 1945. He has a good nationalist record. He was first Councillor to the President of Viet Nam and later a member of the legislative assembly. During the new conflict with France, however, he detached himself more and more from the government of Viet Nam and might now be ready for greater concessions both politically and economically.

## APPENDIX

The establishment of four independent countries in the old colonial area of Indo-China has created new political and economic problems. It is certainly not a final solution but at best the beginning of a more fortunate development, the scope of which it is impossible to envisage at the present stage.

From an economic point of view the division of Annam is a great disadvantage, since the economies of the north and the south are complementary. The north is richer in mineral and manpower resources and is somewhat developed industrially, while the south still has fertile land resources and actually no population pressure.

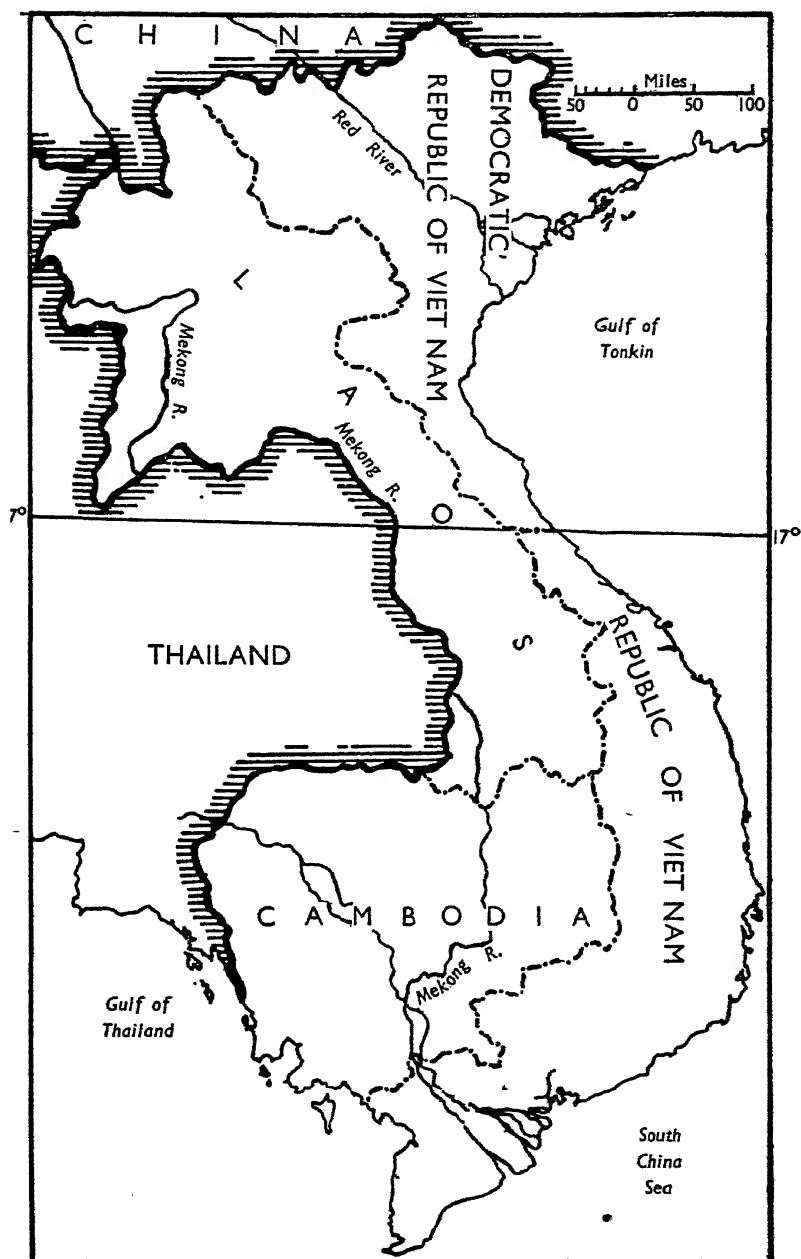
### DEMOCRATIC REPUBLIC OF VIET NAM (NORTH VIET NAM)

Geographically, North Viet Nam consists of widespread delta lands facing the Gulf of Tonkin and a mountainous hinterland reaching the borders of Laos and China. The population is about 13,500,000, of which 85 per cent are farmers, mostly rice growers in the very densely populated delta region. The economy is primarily agricultural and will probably remain so for a considerable length of time. According to official estimates agriculture accounted for 71 per cent and industry for 29 per cent of the total value of output in 1957.

The economic difficulties which North Viet Nam has to face are considerable and closely related to its economic structure. The trade balance has traditionally been negative in colonial times. In 1939, the area of North Viet Nam accounted for 42 per cent of the imports of French Indo-China but only for 18 per cent of the exports.

In 1953, a Land Reform Law was passed for the purpose of a redistribution of land by expropriation or reduction of large holdings. For the implementation of this law the farmers of North Viet Nam were officially classified as landlords, rich, middle class, and landless peasants. It has been reported that nearly 300,000 ha. had been redistributed to 2.5 million small and landless peasants by the end of 1955 and that the land

THE FORMER FRENCH INDO-CHINA SHOWING  
SUCCESSOR STATES





reform was completed in the course of 1956 when a total of 700,000 ha. had been redistributed.<sup>94</sup>

TABLE XI  
REDISTRIBUTION OF LAND BY LAND REFORM CHANGES  
IN THE SIZE OF AVERAGE HOLDINGS  
(in square meters per person)

	<i>Before reform</i>	<i>After reform</i>
Landlords	6,499	1,010
Rich peasants	2,141	2,135
Middle-class peasants	1,151	1,665
Small peasants	455	1,431
Landless peasants	199	1,528

As a result of the land reform, agriculture in North Viet Nam now consists almost entirely of small, owner-operated farms with an average of about 1,500 square meters per person or 7,500 square meters per average household of five persons. Cooperative working methods are being introduced gradually with emphasis for the time being on mutual aid teams. By the end of 1956, 1,352,000 peasant holdings out of a total of 2,300,000 participated in mutual aid teams.

The implementation of the agrarian reform programme was facilitated by the emigration of a large part of the Christian peasant population to South Viet Nam. In this way 144,000 ha. of abandoned land became available for the government which made a great effort to return it to cultivation and to repair the damaged and neglected irrigation systems.

In 1956, the irrigated area had been increased to 800,000 ha. The government reported a rice production of 4,238,000 tons as against 2,453,000 tons in 1939. This increase was made possible by higher yields (1.86 tons per ha. in 1956 as against 1.33 in

<sup>94</sup> These figures and the following table were published in *Voprosy Ekonomiki* (Problems of Economics), Moscow, 1957, Nos. 7, 8 and 9, quoted by Theodore Shabad, "Economic Developments in North Vietnam", *Pacific Affairs*, March 1958, pp. 36 ff.

1939), which mainly were the result of better irrigation. In the good harvest year of 1956, North Viet Nam which normally is a rice-deficient area was self-sufficient in terms of its own nutrition standard.

North Viet Nam is gradually being integrated in the Communist Bloc countries, and China, Checkoslovakia and the Soviet Union are today the most outstanding trade partners of the new Republic.

#### REPUBLIC OF VIET NAM (SOUTH VIET NAM)<sup>95</sup>

The Republic of South Viet Nam comprises the southern half of Annam and all of Cochinchina. It has a population of about 13 millions and its economy is primarily agricultural, though in contrast to North Viet Nam it is a rice surplus area.

One of the most important aspects of South Viet Nam's policy after the division was the effort to broaden the basis of land ownership. The Land Reform Programme (Ordinance No. 57/1956) of 1956 provided for the redistribution of abandoned paddy land in excess of 100 ha. It was hoped that by the end of 1959 some 700,000 ha. of such land would have been distributed among 350,000 peasant families. By May 1958 about 140,000 ha. had been redistributed among some 62,000 cultivators,<sup>96</sup> and in accordance with a statement of the United States Operation Mission to Viet Nam (July 7, 1959), the government of Viet Nam estimates that 681,900 ha. of rice land are subject to transfer to new owners. Of this 410,000 belong to Vietnamese owners and 271,900 to French owners.

The agrarian reform programme, however, has been, until now, hampered by implementation difficulties and by the lack of trained staff. One of the greatest obstacles to agrarian reform measures in South Viet Nam is the difficulties involved in the redistribution of land which originally had been part of the great holdings characteristic of the economy of Cochinchina during the time of colonial rule. Greater success has

<sup>95</sup> David Wurfel, "Agrarian Reform in the Republic of Vietnam", *Far East Survey*, Vol. XXVI, June 1957, No. 6, p. 81 ff.

<sup>96</sup> *Food and Agricultural Rice Policies in Asia and the Far East*, United Nations, FAO, Bangkok, 1958, p. 109.

been reported in the lowering of agricultural rents to 15-20 per cent of the total harvest, in introducing written contracts between landlord and tenant and in improving facilities for credit at reasonable terms. By the middle of 1959 it was reported that nearly 800,000 peasants (out of somewhat more than 1,000,000) had contracts with the landlords, limiting rent to no more than 25 per cent of the gross yield and providing security of occupancy.

In close connection with the agrarian reform programme the government is paying much attention to the recultivation of more than 77,000 ha. of abandoned land in Southern Annam and almost 400,000 ha. in Cochín-China. The greatest effort in this field is being concentrated on the resettlement of refugees from the North, and the most spectacular in this context is the project at Cai San in the lower Mekong Delta, where 43,000 refugees from the North have been settled. In November 1958, it was officially reported that eighteen months after the introduction of the land development programme 47 new villages inhabited by about 80,000 settlers have been established, more than 12,000 houses constructed and more than 28,000 ha. cleared or prepared, 15,000 of which were cultivated (11,300 with paddy).<sup>97</sup> The entire resettlement programme was supported financially by the U.S.A. who until 1957 had contributed more than U.S. \$ 100 million, a considerable part of the generous American Economic Aid granted for the development of South Viet Nam.

In 1956-57 South Viet Nam again became an exporter of some significance on the world rice market with an export of about 190,000 tons. The export of rice in 1957-58 had risen to about 230,000 tons.

#### CAMBODIA<sup>98</sup>

The independent kingdom of Cambodia, founded in 1949,

<sup>97</sup> Report on "The Land Development Program in Vietnam", submitted to The Center on Principles and Policies of Land Settlement, Ceylon, November-December 1958.

<sup>98</sup> A. B. E. Report, "Rapport au Gouvernement Royal Du Cambodge sur l'économie agricole du Cambodge, ses problèmes et son organisation", FAO Report No. 600, Rome, 1957.

covers an area of 70,000 square miles (176,000 square km.) and its population is estimated at more than 4.5 million. It has valuable, not yet inventorized forests covering more than 100,000 square km. and fertile lowlands in the south. Cambodia enjoys a neutral position between the two political blocs and has accepted considerable economic aid from both the U.S.A. and China.

Eighty per cent of the population are small-owner or tenant cultivators with holdings of 2-4 ha. On 80 per cent of the cultivated land the main crop is rice which in a normal crop year allows an export of about 200,000 tons. In 1955-56, rice was grown on 1,000,000 ha. and the total production amounted to 1,150,000 tons. Since 1953, however, the position of Cambodian rice has deteriorated on the world market, partly because of its inferior quality, a fact which makes any considerable investments in irrigation and draining somewhat doubtful and rather suggests a limitation of rice cultivation for export purposes to those areas most suited for the production of high quality rice.

The recording of rights in land is still defective in large parts of the kingdom. This causes a considerable and discouraging degree of uncertainty for the farmer and, in turn, results in continuous and widespread conflicts. Of a total of 176,000 square km., less than 10,000 square km. have been surveyed for cadastral purposes. The agricultural area is extensively subdivided and fragmented. The credit facilities for the farmers are most unsatisfactory, since the existing credit system provides only short-term credit on a very small scale.

#### LAOS

Laos, a "landbound island" surrounded by China, Burma, Thailand, North and South Viet Nam and Cambodia, covers an area of 91,000 square miles (237,000 square km.). It has an estimated population of about 2,000,000. Actual and statistical information on the economic and social conditions in Laos are so to speak non-existent. The main sources of information so far are limited to reports on isolated aspects published by the Central Administration and the impressions

gathered by the few foreign experts who have visited the country.

The kingdom of Laos is poor but has considerable unused resources. Great parts, especially in the Plateau des Bolovens, are underpopulated, but both climate and availability of agricultural land make possible considerable economic development.

The country can be divided into three distinct economic areas: (1) the mountain regions with predominantly shifting rice cultivation; (2) the Mekong and adjoining river valleys where primarily rice is grown by sedentary cultivators; and (3) the Plateau des Bolovens where development prospects are most favourable, especially for the resettlement of the shifting cultivators from the mountain regions.

More than 90 per cent of the entire population is engaged in agriculture, primarily as small peasants practising subsistence farming. Large estates do not exist and, as a rule, the peasants are not indebted.

Generally speaking, the country could be self-sufficient in rice. In 1951-52, a rice area of 586,000 ha. was reported and in accordance with estimates this area was extended to 700,000 ha. in 1958. After independence, however, an increasing number of peasants were reported to have moved away from the villages into the urban areas which might explain a certain decline in agricultural production.

The only agricultural export products are teakwood and small quantities of coffee and rubber.

During the past few years Laos had taken a strong stand against communism and had accepted large-scale military aid from the United States. By the middle of 1960, however, it seemed to have reversed its policy and now intends to follow a strictly neutral course.

## CHAPTER VII

# THE PHILIPPINES

### INTRODUCTION

THE economic, social and political development in the Philippine Islands is unusual for Southeast Asia. During more than four hundred years under Western control, the Filipinos have become the only Christian people in the area, and Western culture and Western economic and social influence have become identical with the national history of the people, while but little has remained of oriental traditions and customs.

The Spaniards brought Christianity and the Church to the people of the Islands, but they also brought suppression and exploitation thus creating, at the same time, the basis for a growing national consciousness. Resistance against the Spanish rule gradually spread from island to island, bringing the various isolated population groups in contact with each other, and teaching them to act and think together in terms of national unity. The United States which took over the Islands at the turn of the century added the technical and spiritual means for a national development by a widespread cultural, economic and political education. American administrators and educators endeavoured wholeheartedly to establish the basis for a modern Philippine state by training Filipinos in administrative methods and teaching them the principles of democracy. American business interests, on the other hand, followed more or less the road of typical colonial penetration. The experiment in political engineering, therefore, was not accompanied by a change in existing feudal economic and social structure, and still today, the political problem in the Islands is intimately connected with the basic agrarian factors.

Under American rule the Filipinos enjoyed a politically privileged position among the Western-penetrated areas of Southeast Asia. Opportunities were made available to them to participate in the administration of their country and they were the only dependent nation in the area certain of achieving

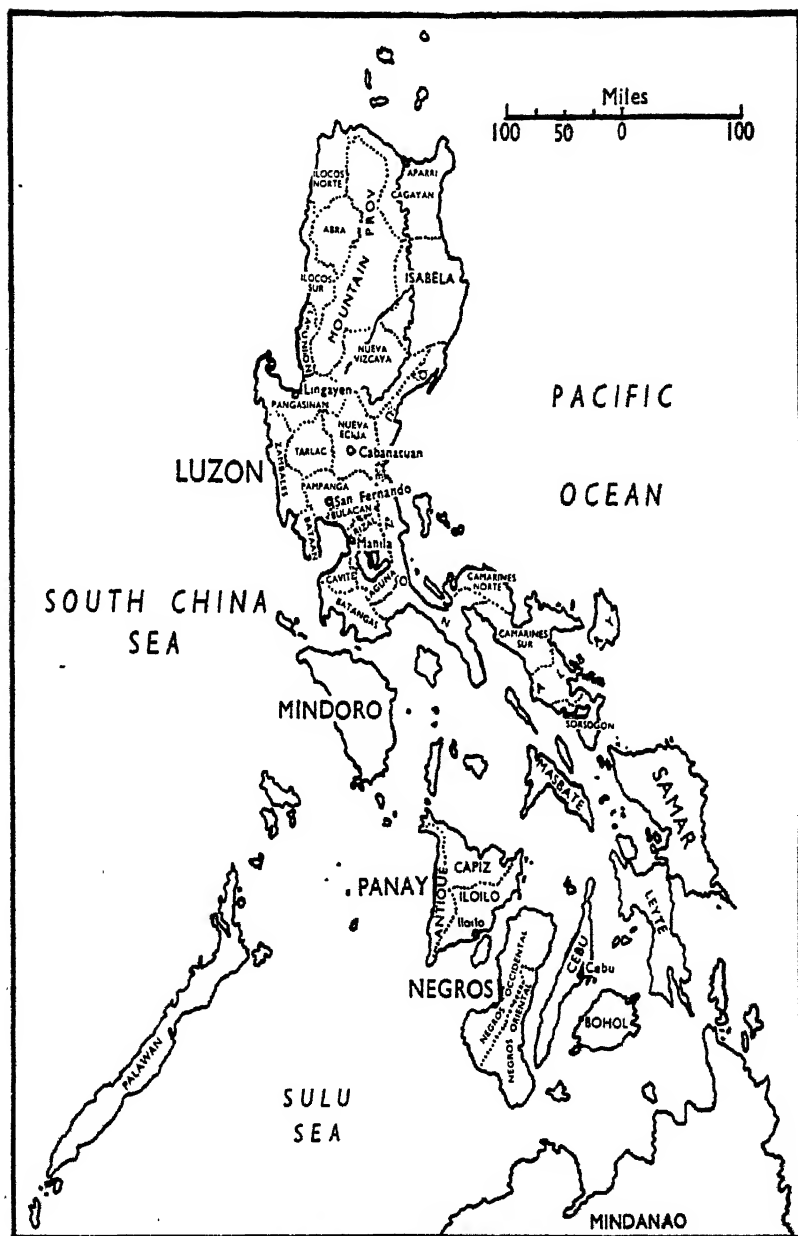
political independence in a not too distant future. They gradually lost, therefore, some of the psychological attitudes of dependent nations and learned to speak the political language of the West.

The basic economic structure of the country, however, was not influenced essentially by this development. For centuries the Islands had been a Spanish colony, and the typical features of economic dependence were retained also under American rule. The United States Tariff Act and the Philippine Tariff Act, both dated August 5, 1909, introduced reciprocal free trade between the United States and the Philippines. This arrangement, subject only to minor restrictions, became the basis for the almost complete economic dependence on the American market and the highly protected position of American exports to the Islands.

The degree of economic dependence was not changed by the Declaration of Independence on July 4, 1946. While about 80 per cent of the Philippine exports went to Europe and Asia at the beginning of the century and only 13 per cent to the United States, more than 80 per cent of the total trade in 1940 was transacted with the United States. During the last few years, however, the relative importance of the United States as a trade partner has declined, and in 1957 the U.S. share in the total trade of the Islands was only 53.6 per cent. This decline was exclusively due to a reduction of the Philippine exports to the United States while the imports from there were increasing, and America has altogether maintained its strong economic position in the Islands.

The total exports from the Philippines in 1957 amounted to Pesos 853 million (Pesos 2.00 = U. S. \$1.00) of which only about 45.6 per cent went to the United States (as against 53.1 per cent in 1956). The biggest export items were copra with a total value of Pesos 264 million, followed by centrifuged sugar with Pesos 165 million, logs and lumber with Pesos 90 million, abaca (hemp) with Pesos 78 million and coconut oil with 43 million. Philippine sugar has no market outside the United States and depends exclusively on the preferential position on the American market guaranteed by the Philippine Trade Act of 1946.

Imports to the Philippines amounted to Pesos 1,229 million





in 1957 (as against Pesos 1,012 million in 1956), and consisted mainly of machinery, base metals, mineral fuels, textile yarns and fabrics, paper products and cereal preparations, the greater part of which were manufactured in the United States. During 1957 alone, imports from the United States increased by as much as 12.1 per cent and the already considerable trade deficit with the United States grew from Pesos 119 million in 1956 to Pesos 227 million in 1957. This continuous large-scale import of general consumer goods, particularly cotton materials, delays the development of an adequate consumption industry, and in spite of progress in the last few years, manufacturing is still limited to small-scale and household industries. In the years before the war the Commonwealth administration had established the National Development Company in an attempt to develop a local cotton-textile industry. Modern spinning and weaving factories were erected, but compared to the needs of the home market the output remained very low. The economic structure of the Philippines thus still displays unmistakable features of a dependent economy, and the import of food and ready-made goods, which must be paid with a large-scale export of commercial crops, hinders the development of a diversified economy.

The strong position of foreign trading firms in the Philippines is based on the fact that foreign capital is still strongly represented in the Islands. Its actual volume is probably even greater than statistics suggests, since a number of big foreign investors (mostly Spanish and Chinese) have acquired Filipino citizenship and their capital, consequently, has become listed as Filipino capital. While the total American investments immediately before the outbreak of the war in the Pacific had been estimated at U.S. \$268 million, direct American investments in 1954 were estimated at U.S. \$350 million representing the book value rather than the market value.

Both before and after independence an almost uninterrupted series of investigations and hearings, missions and commissions studied the trade relations and the impact of political independence on the economic development and on American investments in the Islands. The relations between the United States and the Philippines had long ago become a problem of economic adjustment. The desire to reduce the econo-

mic dependence on the United States, the future position of Philippine exports in the American market, the diverging interests of competitive American groups, and the necessity for a period of gradual adjustment are now the ever recurring topics in public discussion. The frank exchange of opinions and the fact-finding reports of investigators and commissions during the deliberations on independence have revealed how strongly foreign trade, land utilization and level of living are interrelated with the degree of economic diversification.

#### POPULATION AND LAND UTILIZATION

According to the Census of 1948 the population of the Philippines totalled more than 19 million; but today it is estimated at about 24 million. In 1952, 649,000 births and 241,000 deaths were registered and the average annual population increase was estimated at 1.9 per cent. The per capita agricultural land which in 1918 was 0.44 ha. declined to 0.3 ha. in 1948 and to 0.276 ha. in 1954. The Census estimates the average population density at 64.7 per square km., but a most uneven distribution marks the population pattern in the Islands since the density rates in the various provinces range from 8.6 to 391.2 per square km.

Foreign racial groups constitute less than one per cent of the population. The Chinese community is the greatest with almost 122,000 members, while the most important white communities, the American and the Spanish, only number 7,000 and 2,000 respectively. The economic and political influence of these groups, however, is far greater than their modest number suggests, because a considerable number of Spaniards and Chinese have taken out Filipino citizenship since the establishment of the Commonwealth of the Philippines in 1935 and, therefore, are no longer listed as foreigners. In addition, Spanish and Chinese mestizos constitute an influential extension of the foreign communities into the Filipino sector of the political and economic life.

The 7,000 islands of the Philippine Archipelago comprise a land area of 29,742,000 ha., of which only about one-fifth, i.e., 5,727,000 ha., is farmland, while the remaining four-fifths consist of timber and mineral land. The Census estimates that

about 12.5 million ha. (ca. 42 per cent) shall be permanently retained as timber land, thus leaving almost 17.3 million ha. (ca. 58 per cent of the total area) for cultivation, which means that an additional 11.6 million ha. would be available for alienation.<sup>1</sup> These figures indicate the vastness of the potential agricultural land, located mainly in the southern part of Luzon and on the less developed islands of Mindanao, Leyte, Samar, Palawan and Mindoro.

Of the farm area, only 3.7 million ha. are under crop cultivation, while the remainder is ploughable pasture, forest, or idle land.

Rice and maize are the most important food crops. In 1955, they covered roughly 40 and 20 per cent respectively of the crop area. Though the rice area has been expanded continuously since 1910 and thus has kept pace with the increase of population, only very recently the Philippines have become almost self-sufficient in rice. In the last three years before the war about 64,000 tons of cleaned rice were imported annually from China and Saigon, i.e., more than 10 per cent of the consumption, and also during the first post-war years considerable imports of rice and other cereals were necessary. Since 1950, however, agricultural production in general has increased conspicuously, and since 1952 about 98 per cent of the rice consumed is grown in the country itself, and a total self-sufficiency in maize has been achieved. This remarkable progress is partly due to an expansion of acreage and partly to an increase in the yield per ha. The production of copra and raw sugar has likewise gone up, though, since 1953, the output of sugar has remained more or less static.

Altogether about 60 per cent of the actually cultivated area is used for the growing of rice, maize and other subsistence crops, while the remainder is utilized for the production of export crops. In 1958, coconuts had the largest share in the export crop area with 1 million ha., while abaca was planted on 229,000 ha., sugar on 190,000 ha., and tobacco on 80,000 ha. The free trade relations with the United States have considerably influenced the pattern of land utilization, and a continuous

<sup>1</sup> Report on the Inventory of the National Resources of the Philippines, submitted by the Committee established by Special Order No. 376, dated February 4, 1957, pp. 9 ff.

intensification of the cultivation of subsistence crops or an expansion of the crop area will be necessary in order to meet the needs of the growing population.

#### SIZE OF FARMS AND LEVEL OF AGRICULTURAL CULTIVATION

In the Philippines the great majority of farms are small. According to the 1948 Census only 0.6 per cent of the farms are over 30 ha., while almost 50 per cent are under 2 ha., of which 19 per cent are under 1 ha. Farms under 2 ha., however, cover only 18.6 per cent of the total farm area, while the 0.6 per cent of farms over 30 ha. occupy as much as 10.7 per cent, a proportion which clearly shows the maldistribution of farmland in the Islands.

Equally significant for the land distribution pattern is the average farm size in relation to the different types of tenure. While the average size of owner-operated farms is 4.09 ha. and that of farms cultivated by part owners is 3.01 ha., the average size of the tenant farms is only 2.54 ha. Smallest of all are the share-tenant farms, representing about 95 per cent of the total number of tenant farms, with an average of only 2.38 ha. The smallest farms and the highest percentage of tenancy are found in the sugar provinces.

As in other countries of the area tenant farming is still on a low level of cultivation practices, and in spite of considerable government efforts, indebtedness and usury still block the way to agricultural progress for the majority of peasants. Modern organization of production is almost non-existent outside some of the sugar growing districts near the large sugar centrals in the Negros Provinces and in central Luzon, where modern machinery has been introduced and where an efficient organization of production on an increasing scale employs wage labour instead of tenant labour. On the whole, however, the Philippine export crops are still being produced by relatively primitive methods which, only slowly, are being replaced by more modern techniques.

Also, the production of subsistence crops is still comparatively primitive. Most of the rice fields yield only one crop per year and lie idle during the dry season. Double cropping is

TABLE XIII  
AREA OF CULTIVATED LAND AND AVERAGE AREA OF LAND  
PER FARM BY TENURE OF FARM OPERATOR<sup>a</sup>

<i>Tenure of farm operators (farmers)</i>	<i>Area of cultivated land (ha.)<sup>b</sup></i>	<i>Per cent distri- bution</i>	<i>Average area of land per farm (ha.)<sup>b</sup></i>	<i>Average area of culti- vated land per farm (ha.)<sup>b</sup></i>
<i>Total (Philippines)</i>	3,711,902.83	100.00	3.49	2.27
Full owners	2,015,773.50	54.3	4.09	2.34
Part owners	365,277.15	9.9	3.01	2.24
<i>Tenants</i>	1,258,899.65	33.9	2.54	2.06
Share tenants	850,223.76	22.9	2.38	2.00
Share-cash tenants	15,042.73	0.4	3.59	2.78
Cash tenants	23,571.44	0.6	4.45	2.98
Other tenants	370,061.72	10.0	2.80	2.13
Farm managers	71,952.53	1.9	71.18	31.53

<sup>a</sup> 1948 Census.

<sup>b</sup> One hectare=2.47 acres.

practised on only 15 per cent of the total crop area, but is encountered more frequently where effective irrigation has been introduced, e.g., in the corn region of Cebu. Though the area of irrigated arable land during the period 1950-55 has been increased from 518,000 ha. to 790,000 ha. and rice production has gone up considerably, more than 58 per cent of the lowland rice area still depends exclusively on rainfalls for irrigation. For the development of Philippine agriculture, therefore, the expansion of the irrigation system remains one of the most important tasks.

Though the average yield of rice per ha. has increased from 23 to 26 cabanes (1 cabane=44 kg.) in recent years, it is more than 20 per cent lower than the average yield in Burma and 60 per cent below that in Japan. Only in some provinces is it

somewhat higher, as for example in Nueva Ecija and Bulacan where 39 and 33 cabanes respectively are obtained per ha. In the densely populated and highly tenanted areas of central Luzon, however, the average yield seldom reaches even 20 cabanes per ha. This relatively modest output is less due to unfavourable natural conditions than to the poor selection of seed, insufficient irrigation and obsolete cultivation methods all of which are closely associated with inequitable tenure conditions which do not provide incentives for increased efforts of the cultivators.

#### LAND TENURE

For centuries large estates have played an important role in Philippine economy. When the Spaniards had firmly established the colonial rule in the beginning of the seventeenth century, they governed the Islands by colonial officials who in the sphere of politics took the place of the *datos*, the village chiefs of the pre-Spanish days. As compensation, the *datos* and other leading families of the community were favoured with special economic and social privileges, a.o. with the right to tax collecting which gave them an opportunity to acquire more land and the actual power to change freeholders into tenants.<sup>2</sup> In this way a Filipino land-owner class (*cacique*) was established which held the whip hand over a dependent and miserable tenant population (*taos*). The Spaniards intermarried with this upper class and in the course of time a feudal nobility developed which shared the power with the colonial rulers. The economic and political influence of the members of this group became so deeply ingrained that they were able to retain their powerful position even under American rule. In fact, the American administration considered their cooperation as one of the most important factors, since, in addition, they represented the only Filipino group with sufficient education for administrative positions. It was only natural, therefore, that they not only came to enjoy most of the advantages connected with the American regime but also were chosen to replace the American officials who withdrew

<sup>2</sup> Karl J. Pelzer, *Pioneer Settlement in the Asiatic Tropics*, New York, 1945, pp. 88 ff.

gradually after the establishment of the Commonwealth. In this way they became the ruling group in the independent Republic.

On the whole, the economic and agrarian development has been favourable for the large estates since the beginning of the century, although the American administration greatly encouraged the acquisition and settling of homesteads. After long and difficult negotiations with the Vatican it even succeeded in legalizing the efforts of the short-lived Philippine revolution of 1898 to transfer the immense holdings of the Church to the Philippine administration (1902). 165,000 ha. of Friar land with more than 60,000 tenants were purchased for U.S. \$7,239,000, which became part of the public debt of the Islands. This land was later divided and sold mostly to the previous tenants. In fact, between 1903 and 1918, the number of farms increased from 815,000 to 1,955,000. This increase, however, proved to be only of a temporary nature, since the rate of interest for the acquired homesteads, generally 8 per cent per annum for twenty-five years, proved to be more than the new owners could pay without adequate credit facilities. The result was that the land gradually became absorbed by large land owners and partly again by the Church. The Census of 1939 reported not only 320,000 farms less than in 1918, but showed that in the same period the number of owner-operated farms had decreased from 1,520,000 to 805,000, while the number of farms operated by tenants had increased from 435,000 to 575,000, not including the 255,000 part owners, whose social status did not differ greatly from that of the tenants.<sup>3</sup> The serious impact of this development becomes clear when we consider the increase in population from 10 to 16 million during the same period.

The expansion and growing influence of the large estates thus came to mark the agrarian development in the Islands, especially in the sugar provinces of central Luzon, where capital was most concentrated and only a small percentage of sugar farms were operated by their owners. Generally

<sup>3</sup> A part owner in the Philippines is usually a farmer unable to make a living from his own land and, therefore, is forced to lease other land. In 1939, 15 per cent of all farms in the Islands were operated by part owners.

speaking, it was the introduction of large-scale cultivation of cash crops which intensified the trend towards ownership concentration and, consequently, the increased use of farm labour and tenant farming at the expense of small independent holdings. The opening of the American market for Philippine produce meant a dissolution of an agricultural system which was still based on the economic and technical mechanism of Spanish feudalism and which for centuries had been adjusted to serve domestic needs. When large-scale commercial agriculture was superimposed upon this system its mitigatory paternalistic features gradually disappeared. Large land owners would frequently claim adjacent independent small holdings through the courts; more often than not they would win their case, because the incomplete titles to the small holdings could easily be interpreted in their favour and the legal costs involved were way above the means of the small farmers. This well-concealed system of "land-grabbing" contributed greatly to the elimination of small ownership and thousands of once independent and self-sufficient farmers were reduced to tenants and landless farm labourers.

In many respects the development in the Philippines resembled the disintegration of the Javanese village economy. In addition, however, it involved the actual loss of a considerable number of owner-operated small holdings particularly in the sugar provinces, where the establishment of sugar centrals, often with big land owners as shareholders, coincided with the ownership concentration. In the Philippines of today the "sugar baron" has become the largest land owner with far greater economic and political power than the "rice baron" of former days. It is in the sugar provinces that the political history of the Islands has been written for the past forty years and it is from there that Congress and Administration recruit a considerable number of their leading members.

For an analysis of further developments in the land distribution and tenure pattern of the Islands, it is unfortunate that the Philippine Censuses of 1939 and 1948 give only an incomplete picture of the agrarian situation. None of the compiled statistics, for instance, specify the actual share of the very large owners in the total farm area, since they list all large farms under "farms of 200 ha. and over". Also, they do not



contain any information as to the number of farmers listed under "full owners", who actually work as wage labourers on the big estates because their own plots are too small to render complete subsistence.

In order to interpret some of the significant features of the agrarian situation, therefore, it is necessary to correlate certain statistical figures, e.g., number of farms, size of farm area and tenancy frequency, with a view to obtaining a picture of the distribution of land ownership in an area. Relatively few properties in the larger size group combined with high frequency of tenancy are thus indicative of large land ownership. Such correlation, however, has to be done very carefully, since certain crops require larger areas for cultivation, e.g., coconut as compared to sugar or rice.

Another unfortunate aspect of the two Census investigations is the fact that the statistics concerning the agrarian structure contain so few comparative data that it is impossible to obtain a clear picture of the actual development. All that can be done, therefore, is to indicate and analyze some of the most important trends and to draw conclusions where this is permitted by the magnitude of the changes.

Table xiv is compiled from the Census of 1948 and gives a picture of the general land tenure pattern in the Philippines.<sup>4</sup>

When comparing this table with the corresponding figures for 1939, the general situation at a first glance does not seem to have changed to any considerable extent. Of an almost unchanged total of 1,638,624 farms (1,634,726 in 1939) the country average of owner-operated farms has increased more than 5 per cent, from 804,786 in 1939 to 861,239 in 1948, while the number of farms operated by part owners has decreased by more than 35 per cent, from 255,000 to 163,000, and the number of tenant farms gone up by 6.5 per cent from 574,000 to 612,000. The increase in the number of tenant farmers is, no doubt, connected with the considerable diminution of the part owners of whom a great number obviously has been reduced to full tenant status. But the impression of stabilization is misleading, since the figures men-

<sup>4</sup> Amando M. Dalisay, "Agricultural Land Policy and Land Improvement and Development in the Philippines", Paper submitted at a seminar on agricultural policy, College of Agriculture, Laguna, February 1955.

TABLE XIV  
NUMBER AND AREA OF FARMS BY TENURE OF  
FARM OPERATORS (1948)

<i>Tenure of farm operators (farmers)</i>	<i>Number of farms</i>	<i>Per cent distri- bution</i>	<i>Area of farms (ha).</i>	<i>Per cent distri- bution</i>
<i>Total (Philippines)</i>	1,638,624	100.00	5,726,583.64	100.0
Full owners	861,239	52.6	3,519,473.36	61.5
Part owners	163,132	10.0	490,887.89	8.6
<i>Tenants</i>	611,971	37.3	1,553,790.42	27.1
Share tenants	424,732	25.9	1,011,753.07	17.7
Share-cash tenants	5,411	0.3	19,411.72	0.3
Cash tenants	7,898	0.5	35,111.65	0.6
Other tenants	173,930	10.6	487,513.98	8.5
Farm managers	2,282	0.1	162,431.97	2.8

tioned are relative to a farm area of only 5,726,000 ha. in comparison to an area of 6,690,000 in the Census of 1939. The Census of 1948,<sup>5</sup> indeed, shows certain changes of serious significance when analyzing the situation in the various provinces. The tabulations below are compiled on the basis of the Census of 1939 and 1948, and an attempt has been made to coordinate the figures available in order to indicate some of the more characteristic features in a number of important provinces.

Before attempting an analysis, however, of the changes evident from these tables, it must be recalled that the total farm area investigated by the 1948 Census is about one million ha. less than the area covered by the 1939 Census. There is a possibility that war, destruction and post-war unrest may have curtailed the survey of the Census teams and that this is the explanation for the considerable reduction of the investigated area. The explanatory text to the Census, however, neither mentions such difficulties nor offers any

<sup>5</sup> *Summary Report on the 1948 Census of Agriculture*, Republic of the Philippines, Manila, 1952.

TABLE  
FEATURES OF THE TENURE SYSTEM  
(Census of

Province	Farm Area (in hectares)	Number of Farms	Number of Farms Operated by			
			Full Owners	Part Owners	Tenants	Farm Managers
1939						
Pampanga	120,800	23,600	2,825	4,142	16,643	18
Negros Occidentale	298,100	35,900	9,723	1,096	24,377	700
Negros Orientale	121,900	47,400	20,867	5,770	20,774	29
Tarlac	111,400	28,700	7,102	6,318	15,201	30
Cavite	67,400	22,500	6,200	3,780	12,476	7
Ilocos Norte	52,200	31,200	12,533	12,593	6,108	..
Ilocos Sur	44,700	27,200	10,576	10,015	6,571	1
Iloilo	250,000	66,900	25,628	9,508	31,719	60
Nueva Ecija	289,200	78,300	18,118	8,103	52,029	69
Pangasinan	202,100	86,600	33,450	24,444	28,710	11
1948						
Pampanga	67,400	19,600	1,694	625	17,265	37
Negros Occidentale	260,800	39,100	12,326	938	25,480	318
Negros Orientale	125,500	54,000	25,546	3,359	25,064	73
Tarlac	93,000	32,000	7,092	3,871	20,956	31
Cavite	60,300	24,100	6,224	2,006	15,433	3
Ilocos Norte	39,600	31,900	11,113	9,080	11,731	2
Ilocos Sur	42,300	25,900	8,912	8,202	8,766	2
Iloilo	215,100	71,700	26,910	6,464	38,310	7
Nueva Ecija	152,200	49,600	8,915	3,283	37,341	46
Pangasinan	183,100	93,300	32,000	21,331	39,957	34

xv  
IN SOME PHILIPPINE PROVINCES  
(Agriculture)

Area (in hectares) Operated by				Main Produc- tions	Small Farms	
Full Owners	Part Owners	Tenants	Farm Mana- gers		Num- ber	Size (in hectares)
1939						
18,000	17,000	63,800	21,900	Sugar and Rice	4,700	Less than 1.5
111,700	9,200	89,100	88,100	Sugar and Rice	15,600	Less than 1.5
66,100	13,400	33,000	9,300	Sugar, Corn, Rice	31,900	Less than 1.5
28,100	21,700	50,400	11,200	Sugar and Rice	16,600	Less than 3.0
17,500	12,000	36,900	1,000	Rice	9,200	Less than 2.0
22,600	20,700	8,900	..	Rice	14,800	Less than 1.0
16,200	18,100	9,900	500	Rice	11,900	Less than 1.0
113,300	33,700	91,900	11,200	Rice, Corn, Sugar	38,100	Less than 3.0
83,000	29,000	165,000	11,500	Rice	44,600	Less than 3.0
77,300	61,500	61,000	2,300	Rice	54,400	Less than 2.0
1948						
4,300	2,600	58,500	1,900	Sugar and Rice	3,200	Less than 1.5
108,700	11,100	103,000	38,100	Sugar and Rice	15,800	Less than 1.5
69,300	8,600	38,700	9,000	Sugar, Corn, Rice	35,000	Less than 1.5
21,400	11,300	58,400	1,900	Sugar and Rice	17,800	Less than 3.0
14,700	6,500	39,100	15	Rice	9,800	Less than 2.0
13,700	11,500	14,300	35	Rice	17,100	Less than 1.0
13,600	15,100	13,600	3	Rice	9,400	Less than 1.0
93,300	20,500	97,900	3,400	Rice, Corn, Sugar	48,500	Less than 3.0
31,300	12,600	107,300	1,900	Rice	27,400	Less than 3.0
63,400	48,500	70,200	1,000	Rice	61,900	Less than 2.0

other information which might serve as a valid explanation.

Even when taking into account the considerably reduced farm area, the total number of farms has decreased substantially in the densely populated provinces of Nueva Ecija and Pampanga where the heavy population increase would have been expected to encourage subdivision and the formation of new farms. The additional fact that the number of tenant farms has by no means decreased proportionately but has in fact increased in Pampanga indicates strongly that the process of land ownership concentration has continued in these areas of already high tenancy frequency.

In other densely populated and highly tenanted provinces, e.g., Tarlac and Iloilo, on the other hand, the number of farms has increased considerably, presumably because population pressure here has led to subdivision and decrease in farm size. Similarly, the fact that the number of tenant farms has increased substantially might be a strong indication of the continued land ownership concentration also in these provinces.

Most interesting is the development in the sugar-producing provinces of Pampanga, Negros Occidentale, Negros Orientale and Tarlac, grouped together in the first section of the above table. With the exception of Pampanga the number of small farms in these provinces was greater in 1948 than in 1939, which is reflected in an increased number of owner cultivators. In some of the provinces, however, and especially in Pampanga, the number of tenant farms has increased at a still higher rate accompanied by a considerable diminution of the part-owner group. The development in the Negros Provinces and Tarlac indicates a moderate increase in the number of small farms; taking the simultaneous increase of owner farms into consideration, population pressure obviously has resulted both in subdivision and in ownership concentration associated with increased tenancy frequency. In Pampanga, on the other hand, where the investigated area is about 50 per cent of the area investigated in 1939, the frequency of ownership has declined ca. 3 per cent, while the frequency of tenancy has gone up by ca. 18 per cent. These figures indicate very strongly that ownership concentration is continuing at an accelerated rate in this key area of sugar production.

## THE GENERAL PATTERN OF LANDLORD-TENANT RELATIONSHIP

The tenure system in the Philippines is not much different from that generally encountered in Southeast Asia. Large land owners operate their estates by dividing them into small farms which are cultivated by tenants. Among the various forms of tenancy the *kasama* (share-tenancy) system is the most commonly used, especially in the rice regions. In 1948, almost 425,000 tenants worked under this system, where the landlord provides land, seed, and the capital needed for cultivation, while the tenant supplies the labour and, frequently, the working animals. The tenant theoretically gets 50 per cent of the crop after his half of the expenses for cultivation has been paid or deducted in kind; however, his share is often far less because of interests and charges. Less common is the *inquilinato* (cash-tenancy) system, where the tenant has to pay a fixed annual rent for the land, usually in cash. This system is highly speculative, as the tenant alone has the risk of failure or the chance for a bumper crop, but it makes him more independent of the landlord and he is usually allowed to market the crop himself. The relatively smaller number of cash tenants, less than 8,000 in 1948, is most frequently encountered in regions with heavy population pressure, where land is scarce and where the mere fact of occupancy is an asset highly in demand and often paid for in advance. Pelzer<sup>6</sup> reported that cash tenants frequently lease the land on a share-cropper basis and thus function as a kind of middlemen between share tenants and the big absentee landlords, who often prefer this system, as it saves them supervision and does not involve any risks. Almost 25 per cent of the tenants in the Islands, however, work under less specified tenancy systems but are almost always paying at least part of the rental in kind.

The tenancy system in the Philippines is the cause of constant friction between landlords and tenants. Most serious are the conflicts with the share tenant who, devoid of cash and credit, depends entirely on the landlord from the moment he enters the contract. He has to borrow not only cash but also rice to carry him and his family to the next harvest. Though he generally does not have to pay any interest on the relatively

<sup>6</sup> Pelzer, *Pioneer Settlement*, p. 92.

low cash advances which must be returned in kind or cash after the harvest, the rice rations, which he is forced to borrow while the new crop is maturing, are frequently subject to usurious rates of interest which he can seldom pay out of his share in the new crop but only by performing additional services to the landlord. The share tenant usually remains indebted even after the harvest and is thus caught in a vicious circle of never-ending indebtedness.

The conflicts with the less dependent cash tenants arise generally from more businesslike calculations and demands by the landlord. The scarcity of land caused by population pressure tempts the landlord to increase the cash rent and to expel those tenants who refuse to meet the new demands.

Usury is still very frequently encountered all over the Islands and contributes considerably to the continuous concentration of land ownership. It is intimately related to the disintegration of the once self-sufficient village economy and to the lack of adequate credit facilities for the farming population. The most common rate of interest is the rigid *takipan* which claims two cavans of palay (unhusked rice) for every cavan borrowed. Failure to pay after the first harvest doubles the debt at the next harvest. As these loans are generally seasonal loans for about six months, the *takipan* system claims an interest rate of 200 per cent per annum. Other rates of interest demand "only" the return of three cavans for every two borrowed, or four for every three.

In some provinces of central Luzon the tenant is obliged to repay the cash value of the rice he has borrowed. As he is generally forced to borrow rice before harvest time, when the old crop is consumed and the price of rice is consequently much higher than immediately after the harvest, he must often sell up to three times as much of his new crop in order to pay his debt and interest. Aside from usury, compulsory services for the landlord and exorbitant fines for minor violations have added in the past to the misery of the tenants and can still be found in a somewhat disguised manner. Two to five cavans of rice are frequent fines for petty violations such as permitting outside visitors to enter the estate, fishing without permission, or cutting bamboo for personal use.

After the establishment of the Commonwealth a number of

tenant disputes have come before the Department of Labour. In the majority of cases the tenants complained of dishonest calculations of the crop or their debt to the landlord. In 1941, the last year before the war, 320 such disputes came before the Department (73 alone from Pampanga), and 264 of them were settled in favour of the tenants. In the first years after the establishment of the Republic the Tenancy Division of the Department of Justice took over the handling of the tenant disputes, and though the number of cases brought before the Division were mostly settled in favour of the tenants, it may be safely assumed that only a small percentage of disputes calling for legal intervention were actually reported to the Tenancy Division.<sup>7</sup>

#### THE SITUATION OF THE PEASANTS

The life of the Filipino peasant is determined by the rigidity of the tenure system. The annual cash income of the average tenant holding of 2 ha., be it in the rice or sugar regions, is hardly ever enough to cover the mere subsistence of the tenant and his family. In most cases he does not even come into possession of his full share of the income from the land because of the loans he must repay with interest after the harvest. In addition, the smallness of the farm does not keep the tenant occupied for more than a few months of the year. Millions of working hours are wasted, and tens of thousands of tenants have to live on the produce of 600 hours or less of man labour during the year, as the lack of a diversified economy makes it practically impossible to find additional employment during off-season.

When an indebted tenant has exhausted all available sources of credit and can find no other possibility for additional income, he may frequently pay his debt by sending his minor children as servants to the house of the landlord, where they will have to work for years without any pay. A patriarchal attitude on the part of the landlord may mitigate this form of child labour, but in many cases the children will have to work without receiving adequate education, food, and clothing. Until recently, actual employment agencies

<sup>7</sup> For later development under the Magsaysay administration, see pp. 220-22.



existed in Manila which would pay the peasants a lump sum for the children, take them to the city, and hire them out as servants. The employer would have to pay a fixed amount for the child and repay the initial expenses of the agency in small monthly instalments. These instalments were considered the debt of the child, who consequently would have to work without wages until the entire sum had been repaid.

The distress of Philippine peasantry has almost become a commonplace. Time and again it has been emphasized in official reports, but in spite of considerable efforts of the Magsasay administration and also of some noteworthy accomplishments in the fields of education, sanitation and public health, the progress achieved during the post-war period remains limited. The statements of Francis B. Sayre, America's last High Commissioner to the Philippines before the war, still hold amazingly true: "The bulk of the newly created income went to the Government, to landlords, and to urban areas, and served but little to ameliorate living conditions among the almost feudal peasantry and tenantry."<sup>8</sup> "The gap between the mass population and the small governing class has broadened, and social unrest has reached serious proportions."<sup>9</sup>

#### AGRARIAN REBELLION

In hundreds of bloody uprisings the Philippine peasantry rebelled against Spanish oppression, and the final revolution against Spain at the end of the last century can be interpreted largely as an agrarian rebellion by the distressed tenants on the large estates of the Church. The unrest continued during the following decades of American rule, and through bloodshed, strikes, demonstrations and, finally, through the ballot, the tenants protested against the maintenance of a tenure system which tied them to the lowest level of living. The longing of the people for a fundamental change of the agrarian structure became the basis for the

<sup>8</sup> Francis B. Sayre, High Commissioner to the Philippine Islands, "Freedom Comes to the Philippines", *Atlantic Monthly*, March 1945.

<sup>9</sup> *The Fifth Annual Report of the United States High Commissioner to the Philippine Islands*, Washington, 1941, p. 34.

almost mystic power of the slogan "Independence", since for generations they had identified landlordism with foreign rule.

It would be beyond the scope of this study to mention all the rebellions and clashes which were more serious than the usual manifestations of permanent agrarian dissatisfaction, particularly in the overpopulated and distressed provinces of central Luzon. Two pre-war uprisings, however, merit a detailed description, since they reveal the willingness of the Filipino peasants to fight for their rights and for what they conceived to be their country's welfare. During the Tayug incident of 1931, in the province of Pangasinan armed peasants looted the City Hall and destroyed the land records on file. Filipino officialdom was inclined to minimize the uprising by attributing it to religious fanaticism, but American opinion at that time understood rightly that it was directed against "caciquism", agrarian oppression and Constabulary abuses.<sup>10</sup> In this connection J. R. Hayden quotes the following passages from a contemporaneous report :

The reasons why the Filipino leaders did not wish the Tayug incident to be investigated by a body containing the appropriate members of the Governor General's staff of advisers are obvious. Such an inquiry would inevitably be pushed into the whole realm of the oppression of the poor peasants by the local boss, the usurer, the Constabulary, and the local official. The fact that the machinery for the registration of land titles is years behind in its work, and that the rich and influential "land grabber" is taking advantage of this situation to despoil the homesteader and the small farmer would come up for consideration. The bitter and dangerous discontent of large numbers of peasants in many parts of the central plain of Luzon would be revealed. Here is a situation that many people believe would be extremely perilous should the support of American authority be withdrawn from the Government of the Philippines. Indeed, one of the highest officials in that Government, a Filipino, declared to the writer that the Tayug incident should not be called an agrarian uprising because the term

<sup>10</sup> Joseph Ralston Hayden, *The Philippines, a Study in National Development*, New York, 1942, pp. 379 ff.

might very well give rise to similar outbreaks elsewhere in the Islands.

Governor John C. Early, who knew and understood the common Filipino people, declared after the bloody uprising in Tayug: "Take away a man's land and he is desperate. This is an old condition in that region. Other parts of Pangasinan, Tarlac and Nueva Ecija are just as bad. The whole of central Luzon is ready for an uprising. It needs leadership only. Sandico has said that land troubles in central Luzon would not be settled as long as the Americans remain, but will soon be dealt with after they leave."<sup>11</sup>

The bloody "Sakdal Uprising"<sup>12</sup> of May 2 and 3, 1935, in the provinces surrounding Manila involved 5,000-7,000 men and women and was brutally suppressed by the government police. It was a vehement outburst of agrarian dissatisfaction, and was of particular significance, as it was the first rebellion in which the political slogan "Independence" played a decisive role for the peasants of central Luzon.<sup>13</sup> Its leader, Benigno Ramos, a discharged, politically unreliable official, had incited and organized the hungry, deceived and always disappointed

<sup>11</sup> J. R. Hayden, *ibid.*, p. 400. The quotation is a record of a conversation between the writer and Governor Early, on January 14, 1931. The mentioned Sandico was an officer during the revolution of 1899, leader of the farmers in Bulacan, and Vice-President of the Constitutional Convention.

<sup>12</sup> Sakdal is the Tagalog word for "accuse" or "strike".

<sup>13</sup> Hayden, *ibid.*, pp. 392 ff., gives an excellent description of the Sakdal uprising. After having pointed out to a Filipino the futility of the revolt and the suffering it had caused, Hayden asked him: "Do you think it was worth it? Aren't you sorry that all this has happened?" "No, sir," he replied, "I am not sorry. We have shown that we have rights. We know that we have rights and are willing to die for them. We have shown America that the Filipinos want their independence. I do not care if we go to Bilibid for a long time. I do not care if we were killed."

Hayden's comment is as follows: "There was no bombast in this statement. No reporter was present to advertise the speaker as a patriot and a martyr. This Filipino, Nathan Hale, was not running for any office and had never been a 'politico'. He was representative of hundreds of thousands of his compatriots, however, the poor, unknown, individually inconsequential people who are as willing as was any revolutionary American to die for their country, and who in the end will rise against oppressors, whether foreign or Filipino."

tenants in a revolt against their masters. He accused Quezon of corruption and of betrayal of the independence movement. He agitated against the planned Philippine Commonwealth and said that it would never lead to independence but merely strengthen the cacique system and hand the resources of the country to foreigners. During the Japanese occupation Benigno Ramos supported the Japanese to the bitter end and pointed to Japan as the only place from which final liberation would come to the Philippines.

The political background of the Sakdal uprising was the attempt to prevent a plebiscite on the Commonwealth Constitution scheduled for May 14, 1935. The statements by peasants involved in the uprising confirm that they associated oppression and abuse with foreign control. "I oppose the Constitution because we want independence. It is a good thing because living will be easy under independence", was a typical utterance.

Hayden quotes as follows from a report made by an unbiased investigation committee of the Malacañan Advisory Staff :

Fundamentally, the uprising of May 2 and 3, 1935, was due to political factors of long standing. . . . The Committee has been unable to find any evidence of Communism or radical socialism. The Sakdal leaders have taught their followers to believe that they have been betrayed by the Filipino political leaders and that the Filipino leaders who formerly advocated independence now support the Constitution and the Commonwealth. The rank and file of the radical wing of the Sakdal party now believe that the establishment of the Commonwealth Government is a move to establish and maintain in power a group of Filipino leaders who represent the upper classes who will oppress the lower classes. They believe that immediate independence would enable the economically depressed classes to eliminate these leaders from politics.

Economic and social factors did not operate to bring about the uprising, other than that the poor economic and social status of the people served to accentuate dissatisfaction with existing political conditions and opposition to the Constitution and the Commonwealth Government.

In the wake of the Japanese invasion a popular front of the peasants was organized in the provinces of central Luzon under the name of Hukbalahap, short for the Tagalog Hukbo ng Bayan Laban sa Hapon (United Front against the Japanese). It was supported by the intellectual and middleclass groups in Manila under the leadership of Luis Taruc, head of the General Union of Workers, and Vincente Lava, an outstanding Filipino chemist and contained about 100,000 armed members during the occupation. Its fight against the Japanese invaders and collaborating landlords and the continuation and intensification of its activities after the war must be understood against the background of the economic and social development in central Luzon. From the very start it was simultaneously a struggle for independence and social emancipation. When the Islands had become independent and no move was made for fundamental changes in the agrarian structure, the disappointed peasants of central Luzon continued the struggle for social emancipation. The Hukbalahap emerged as their natural stronghold and demanded the purge of former collaborators and a change of the land tenure system. The Huk movement together with other peasant and guerilla organizations became the main body of a new political party, the Democratic Alliance, which drafted a political programme urging an increase in the tenant's share, a minimum wage of 3 pesos a day for workers, and the purchase of large estates by the government for subdivision under conditions favourable to the tenant.

The attitude of the new republic towards the well-armed and self-assured peasants of central Luzon differed but little from the traditional policy of Filipino administrations. The Hukbalahap was officially outlawed on March 6, 1948, under a proclamation by President Roxas, and a few days earlier the Philippine Congress had solved the collaboration problem in its own way by extending an amnesty to all political and economic collaborators. After Manuel Roxas' death in April 1948 his successor President Elpidio Quirino proclaimed an amnesty for the members of the Hukbalahap and their leader, Luis Taruc, and they were given a limited period in which to surrender their arms. Although Luis Taruc and a number of his followers accepted the amnesty, the fight of the peasantry

continued, at times with greater vehemence than heretofore.

The influence of the Hukbalahap on the Filipino peasants declined only in the mid-fifties when President Magsaysay succeeded in reducing its military resistance to a minimum partly by force and partly by the implementation of agrarian reform measures. His death, however, cut short the full realization of his programme and thus the resistance of the peasantry continues to smoulder and even flares up occasionally. The Hukbalahap, or whatever other name the resistance may be given, remains, therefore, a potential menace to the existing political system, as long as pacification by force is not coordinated with agrarian reform.

#### PRE-WAR PUBLIC DOMAIN POLICY AND AGRARIAN LEGISLATION

Unlike most other countries in Southeast Asia the Philippines has a great reserve of rich public lands, estimated at more than 11 million ha., which offers ample opportunity for an organized resettlement of the excess population from the overpopulated provinces in central Luzon and Cebu. The Islands owe this great asset to the farsighted policy of the American land administration which from the very beginning endeavoured to prevent powerful individuals and corporations from monopolizing the public domain. Developments in several other countries of the area had clearly shown the ill-effects of such monopolies, and as early as in 1902 a law was passed limiting the acquisition of public lands to 16 ha. for individuals and 1,024 ha. for corporations. It has been asserted frequently that these rigid restrictions blocked the way for a large-scale agricultural development and that they were the main reason for keeping American rubber capital away from the Islands (Mindanao). The successful sugar industries both in the Philippines and in Java, however, prove that the development of commercial agriculture is not easily hampered by land restrictions and, generally, is able to adjust to legal requirements. It can be assumed, therefore, that rather than the land restrictions, it was the latent fight for independence and the lack of political stability in the Islands which discouraged the rubber capital from long-term investments.

In 1919, by Act No. 2874, the acquisition and utilization of public land became practically limited to Filipino and U.S. citizens and to corporations with at least 61 per cent Filipino or American capital. Although this Act raised the limit for the purchase of public land by individuals to 100 ha., later increased to 144 ha., it defended emphatically the original limit of 1,024 ha. for purchase by corporations in spite of official and private recommendations for an increase.

These two laws established the foundation for a wise policy which prevented the Philippines from becoming a mere plantation colony, in contrast to several other dependent territories, and secured the reserve of public land as a national inheritance for a future constructive resettlement policy.

Following the law of 1902 on the acquisition of public lands, the American administration attempted to establish a homestead system in the Islands by the Public Land Act of October 7, 1903. On the whole, however, this homestead programme was a disappointment. From its inception to the establishment of the Commonwealth in 1935, the lifetime of one generation, only 55,000 out of 212,000 homestead applications were approved, less than 35,000 were patented, and almost 50 per cent were either rejected or cancelled. It proved extremely difficult to conduct a progressive land policy in an almost feudal environment. The influential and generally well-informed landlords would get ahead of the prospective settler and, for speculative purposes, take out titles to land nearest the road, thus leaving the remote plots to the homesteaders who, consequently, would encounter immense difficulties in settling and disposing of their produce. Theodore Roosevelt, when Governor-General of the Islands, tried to fight this abuse and issued an executive order which limited the acquisition of land along the roads in the public domain, but he did not succeed in eliminating the speculation.<sup>14</sup>

In many cases the homesteader settled without having the legal protection of a title to his land, since the cadastral survey failed to keep pace with the approving of applications. Because of the heavy costs involved many homesteaders never proved the title to the land they cultivated and it happened frequently, therefore, that they unwittingly settled on a tract

<sup>14</sup> Karl Pelzer, *Pioneer Settlement*, pp. 111 ff.

of land belonging to, or at least claimed by, a large estate owner. Roosevelt asserted that "the holder might be perfectly aware of this but, saying nothing, would let the little man clear and improve the property for a number of years and then turn him off without remedy".

The insecurity of occupancy and the lack of reasonable credit and marketing facilities discouraged the peasants from leaving their accustomed surrounding, however wretched, and in the course of a relatively short time the never-very-successful homestead programme deteriorated more and more. The Administration was not inefficient but was unable to implement the homestead legislation under a social order which by tradition considered public domain and the labour of the peasants as rightly belonging to the privileged class.

The liquidation of the Friar estates (see p. 200) and the homestead legislation were the first attempts by the American authorities to bring about a change in the feudal structure of the Islands. They soon realized, however, that more detailed measures would be needed in order to battle the traditional power and recklessness of the landlords whose economic position had become even still stronger through the free-trade relationship with the United States.

To this end the Rice Share Tenancy Act of 1933 (No. 4054) was passed during the administration of Governor-General Theodore Roosevelt, as "An Act to promote the well-being of tenants in agricultural lands devoted to the production of rice and to regulate the relations between them and the landlords of said lands, and for other purposes".<sup>15</sup> The most important regulations contained in this Act were: Written contracts in the local dialects; equal distribution of costs and crops; at least one-year contracts, if not otherwise agreed; and an upper limit of 10 per cent interest for loans, and a guaranteed minimum share of 15 per cent for the tenant irrespective of the degree of his indebtedness. The enforcement of these provisions, however, was prevented by the landlords who succeeded in postponing the application of the Act until such time as a majority of the municipal councils in the provinces wanted its application; a majority, however,

<sup>15</sup> Theodore Roosevelt, "Land Problems in Puerto Rico and the Philippine Islands", *Geographical Review*, Vol. XXIV, 1934.



which was never reached, as the landlords, naturally, also controlled the municipal councils.

The Commonwealth government rewrote and amended the Act in 1936 (Commonwealth Act No. 178) and empowered the President of the Philippines to put it into effect "when public interests so require". In spite of the increasing unrest in the tenant provinces the enforcement of the Act was postponed until January 1937, when President Quezon proclaimed the Act effective in the chief areas of disturbance. It offered but little protection to the tenants, who frequently became subject to wholesale dismissal by the landlords when they claimed the rights given them by the law. Although later Commonwealth Acts (Nos. 461 and 608) prohibited such dismissals and contained provisions for compulsory arbitration of all tenant disputes the regulations in the Rice Share Tenancy Act were largely evaded. Usurious rates of interests, for example, were camouflaged by a simple IOU or similar methods, and the traditional Pacto de Retro was still applied which permitted the sale of property to the creditor for a price corresponding to the accumulated debt. Through the Pacto de Retro many part owners lost their small property to the landlord and were reduced completely to the status of tenants.

High Commissioner Francis B. Sayre commented as follows on the eviction from the land without legal procedures: "Although in part, the increasing difficulty may have been the result of the activities of agitators among the tenants, in no small measure they appeared to be the result of intention on the part of landlords to rid themselves of tenants, legally or illegally, who demanded that the landlords live up to the existing laws".<sup>16</sup>

The tenancy legislation of the Commonwealth did not improve the landlord-tenant relationship essentially and proved again the futility of attempting to normalize the landlord-tenant relationship by mere procedural regulations. It gave the tenants the opportunity, however, for a better-organized fight and a certain amount of publicity. A rather powerful tenant union was organized in the late thirties under

<sup>16</sup> *Fourth Annual Report of the United States High Commissioner to the Philippines to the President and Congress of the United States*, Washington, 1940.

the capable leadership of Pedro Abad Santos, and President Quezon was forced to recognize the tenants and agricultural labourers as an essential political factor.

In a further effort to ameliorate the situation of the peasants, a series of laws were passed in 1936 authorizing the government to expropriate against just compensation those portions of the large estates which were subdivided to tenants and also to lease large estates for twenty-five years. The Rural Progress Administration was established with a capital of 1.5 million Pesos, and by 1940 it had taken over the homesite sections of a number of estates in central Luzon and had leased the large Buena Vista Estate of 27,000 ha. Contrary to expectations, however, the situation of the tenants hardly improved on the estates managed by the Rural Progress Administration, and the government experienced the futility of a land programme which neither increased the quantity and quality of the land nor was accompanied by adequate measures in the fields of credit and marketing. The conflicts with the tenants continued and a dissatisfied and therefore hostile tenant class more and more identified the government with the hated landlords.

#### POST-WAR AGRARIAN REFORMS

The Republic of the Philippines, established in 1946, was burdened with the social and economic malaise of the past. The new government and administration were formed from the very same groups which had been in power during the time of the Commonwealth and, most naturally, their first main objective was the re-establishment of the pre-war economic and social order. Aided by the political and moral support of the United States, the independent government declared an open war against the Hukbalahap, the strong underground movement which during the Japanese occupation had emerged as the leader of the fight for the social emancipation of the tenants, especially in the central provinces of Luzon. The Hukbalahap was fighting a losing battle against superior military forces, but it retained its influence on the disappointed peasantry so that the following years were marked by constant and widespread agrarian unrest.

No serious attempt was made to tackle the agrarian problem until Ramon Magsaysay was elected President in 1953. The history of the post-war agrarian reforms in the Philippines is closely connected with his heroic fight against the powerful groups of big land owners who had a decisive influence in Congress. Magsaysay's goal was to restore peace in the areas of agrarian unrest by means of military operations against the Huks combined, however, with a constructive agrarian reform policy and a comprehensive resettlement programme in Mindanao and other suitable places for the dissatisfied peasants. His "rural improvement" programme which had the dual scope of improving the landlord-tenant relationship and encouraging resettlement, was not limited to increased government support of the rural population but aimed at a fundamental economic and social change of the entire agrarian structure.

Though Magsaysay's agrarian reform programme was inspired by a realistic understanding of the prevailing conditions and by a practical idealism, its actual results, of necessity, fell far behind expectations. This could hardly have been avoided, as he had lost the initial, but decisive, battle for the long overdue increase of the unrealistically low land assessment and taxes against the politically powerful vested interests in the Philippine Congress. In the absence of adequate assessments and a progressive land taxation, land speculation, social prestige and other irrational factors continue to determine the land values and thus the entire land distribution pattern. Magsaysay's tax reform would not only have increased the revenues to the government and, thereby, provided the necessary funds for his reform programme but would, at the same time, have forced the land values down to an adequate level, diminished speculation in land and encouraged the cultivation or resale of idle land. Now, without the backing of a land tax reform, his programme was doomed from the very beginning to remain an initiative and but little more than a promise.

The Agricultural Tenancy Act of 1954 (Republic Act No. 1199) was designed to reduce the power of the big land owners by: (1) allowing the tenants to opt for leasehold instead of share-tenancy; (2) reducing land rentals by basing the sharing

arrangements on the respective contributions of landlord and tenant, but assuring the tenant cultivator a minimum share of 30 per cent for his labour; (3) stipulating an upper limit for rates of interest on loans and advances; (4) restricting the ejection of tenants to "just causes" and subject to control by the Court of Agrarian Relations (Rep. Act No. 1409); and (5) recognizing the need for education as an essential precondition for the implementation of the law and establishing the Agricultural Tenancy Commission for that purpose.

In spite of the progressive spirit of this Act the often incomplete and vague formulation of its provisions can hardly be expected to bring about more than some minor improvements in the landlord-tenant relationship. For instance, with regard to the tenant's right to opt for leasehold instead of share-tenancy,<sup>17</sup> the law nowhere explicitly transfers managerial rights to the tenants. In fact, the tenancy relationship is described as a relationship which "arises between a landholder and a tenant once they undertake jointly the cultivation of land belonging to the former under share-tenancy or leasehold". "Joint cultivation", however, is the traditional essence of share-tenancy and refers to the owner's role in management and not in the actual tilling of the soil. In other words, the tenant would hardly gain in actual status by choosing the leasehold system. Furthermore, since the owner may require as much as 30 per cent of the gross harvest for the "use of the land" under leasehold, while the tenant will have to shoulder the entire costs of fertilizers, threshing, etc., the tenant can hardly be tempted to opt for a leasehold. In fact, only very few changes from share-tenancy to leasehold have been recorded.

The Act also contains provisions which may have serious economic and social consequences under given conditions: A land owner may be granted the authority to mechanize the work on his estate provided he can prove the suitability of the land for mechanized cultivation. Since this provision, however, does not take into consideration the possible economic and social effects of mechanization, it may cause an unfortunate dislocation of the tenants and, consequently,

<sup>17</sup> D. Wurfel, "Philippine Agrarian Reform under Magsaysay", (I). *Far Eastern Survey*, Vol. XXVII, January 1958, pp. 7 ff.

an increased pressure on the land in the non-mechanized areas.

In spite of its shortcomings the Agricultural Tenancy Act is of historic significance and great psychological importance. For the first time in Philippine history an administration has identified itself with the peasant class, and by recognizing the necessity for legal and administrative action against the heretofore unlimited power of the landed interests has forced the feudal ideology on the defensive. The Act has undoubtedly given the tenants a somewhat greater amount of security and personal freedom, but even this comparatively modest progress can be maintained only if the Agricultural Tenancy Commission continues to receive adequate funds and moral support.

Under the Land Reform Act of 1955 (Republic Act No. 1400) a Land Tenure Administration was established for the purpose of acquiring estate land for subdivision and subsequent resale to the actual occupants, provided that this has been petitioned by the majority of the tenants on the estate in question. The land shall be acquired either by negotiated purchase or by expropriation against just compensation, though expropriation is possible only in those cases where the estate is either the site of justified agrarian unrest or exceeds the retention limit of 300 ha. for private persons or 600 ha. for corporations. The rather high retention limit, however, seriously impedes the effectiveness of the Act. If expropriation, for example, is petitioned on a privately owned estate of 400 contiguous ha., only one-fourth of the tenants would benefit from the resale. Such procedure, naturally, will lead to rivalry among the tenants and give the landlord the possibility for shrewd manipulations both with his tenants and with the negotiator of the Land Tenure Administration who is to determine which part of the estate should be expropriated. Moreover, since the term "just compensation" is almost always interpreted by the courts as equal to the actual market value of the land, regardless of the yield or tax assessment, and since no clause in the law prohibits alienation with intent to avoid expropriation, the overall prospects for any successful action by the Land Tenure Administration are rather doubtful.

Some of the big land owners have actually been in favour of expropriation procedures because of the high compensation

payments involved. In several instances owners have even offered land for expropriation directly to the Land Tenure Administration or have induced their tenants to hand in the required petition.<sup>18</sup> Though, as a rule, the Administration does not accept expensive offers of poor land, politically influential land owners may have obtained an exaggerated price for their land without strong tenant interest in expropriation.

The lack of adequate funds and the exceedingly high land values have greatly limited the implementation of the Land Reform Act and the activities of the Land Tenure Administration. As the "market price" decides the amount of compensation paid for expropriated land, it also determines the size of the twenty-five annual instalments which the tenant will have to pay for his plot. In most cases the instalments amount to considerably more than 20 per cent of the gross income and thus become a heavy financial burden for the former tenant. He will have to incur additional debts and forego any possibility to raise his level of consumption for years to come. No wonder, therefore, that he gets discouraged and sooner or later may transfer his newly won right to the land. In 1955, mortgages and transfers of rights over farmplots actually outnumbered the agreements to sell.<sup>19</sup>

In the prevailing political and economic climate the purchase of land by government agencies for redistribution to tenant cultivators seems of but little use, since the acquisition price and, consequently, the instalments are far too high, and the land, therefore, is frequently resold to non-cultivators. As long as landlord interests dominate the Congress and prevent the reassessment of land values, the Land Reform Act of 1955 can be no substantial contribution to the solution of the agrarian problem in the Philippines.

One of the great ideas in Magsaysay's rural improvement programme was the organization of a vast resettlement scheme designed to alleviate the pressure on the agricultural land in the densely populated areas and, at the same time, rehabilitate the captured members of the rebellious Hukbalahap

<sup>18</sup> D. Wurfel, "Philippine Agrarian Reform under Magsaysay", (II), *Far Eastern Survey*, Vol. XXVII, February 1958, pp. 23 ff.

<sup>19</sup> D. Wurfel, *ibid.*, II.

forces as economically independent and politically loyal citizens. The National Resettlement and Rehabilitation Administration (NARRA) was established in 1954 under the Republic Act No. 1160 to conduct the migration and settlement of landless tenants and farm workers on arable lands of the public domain in Mindanao and Palawan. The NARRA was to receive an allocation of Pesos 5 million for the first fiscal year 1954-55 and Pesos 8 million annually for the following ten years. Owing to the shortage of funds, however, the NARRA had only received a total amount of Pesos 22.9 million by the end of the fiscal year 1957-58, some Pesos 6 million short of the amount stipulated. During the period 1954-58, twenty-one settlement projects were established. Five of these projects covering an aggregate area of 220,583 ha. were declared completed with the settlement of 7,662 families. In the remaining sixteen projects covering a total area of 441,000 ha., 15,731 families had been resettled as of August 31, 1958, on about 103,000 ha. of which, however, only 58,638 ha. have been developed and cultivated. The average resettlement cost amounted to Pesos 1,000 per family including subsidies, loans, and cost of administration and development. The generous resettlement and rehabilitation scheme for the captured members of the Huk forces, however, did not survive the Magsaysay administration and has remained restricted to the original four projects.

Although the land settlement programme was the largest of its kind ever attempted in the history of the Islands, it suffered under the same shortcomings as the other reform programmes and has proved unable to bring about any substantial change in the prevailing tenure conditions. The inadequacies of funds needed to meet the tremendous financial requirements of resettlement prevented sound forward planning. Additional funds had to be generated from bond issues at 4 per cent per annum, but in order to cover also the costs of administration the interest rate for loans on land purchases had to be raised to 6 per cent per annum, which greatly increased the financial liability of the small purchaser.

The limited results achieved by NARRA during four years of operation prove again that land settlement programmes are of but little avail as remedial measure against a defec-

tive agrarian system. The scope of the programme, however well conceived it might have been, becomes infinitely small in view of the needs of hundreds of thousands of tenant families in whom the hope has been awakened to gain the owner right to 10 ha. of farmland in Mindanao or Palawan. The limited number of resettlers can have no tangible effect on the general situation in the overpopulated provinces of central Luzon, where each tenant removed will be replaced immediately by another tenant cultivator, so that the tenancy percentage at best will remain the same. In contrast to former resettlement schemes, however, the Magsaysay administration succeeded in providing the resettlers with somewhat better facilities and thus in keeping them as owners on their land.

#### AGRICULTURAL CREDIT

The expansion of the agricultural credit system is undoubtedly the most successful of the post-war reforms in the Philippines. In 1952, the Republic Act No. 720, or the Rural Bank's Act as it was called, empowered the Board of the Central Bank of the Philippines to establish rural banks with the purpose of providing "the normal credit needs of the small farmer, small merchant and small businessman, and supervise the proper use and application of loans". The Magsaysay administration and also the successive governments furthered the development of the rural banks and in 1957 their number had passed the hundred mark. In 1957, the total resources of the rural banks aggregated Pesos 34.8 million, of which, however, only about Pesos 24 million (67.4 per cent) went to agriculture.

Compared to the rural banks which also extend non-agricultural credit and are rigid in their security claims the Agricultural Credit and Cooperative Financing Administration (ACCFA) is better adjusted to serve the needs of the tenants. This government agency, established in 1952 by the Republic Act No. 821, provides loans at reasonable rates of interest (6-8 per cent) to cultivators through the Farmers' Cooperative Marketing Associations (FACOMA), which it organizes and supervises in cooperation with the government. ACCFA loans are granted to the cultivator either against the pledge to



deliver his next crop to the cooperative warehouse or against an actual deposit of palay as security which will be stored by FACOMA and resold at the time when prices are most favourable. Through loan committees organized on the village level, ACCFA furthermore extends direct loans to the farmers for production, subsistence, purchase of working animals and similar purposes. The most remarkable feature of the ACCFA credit system is the fact that loans are extended to farmers against the expected production alone, i.e., against their capability to repay the loan, and that no other security or collateral is required.

During the presidency of Magsaysay and under the efficient chairmanship of Colonel Osmundo Mondenado the activities of ACCFA increased rapidly and efficiently and were expanded from the rice-growing districts to other tenant areas in most parts of the Islands. By the end of 1958, 467 FACOMAs, covering more than 10,000 villages, had been organized and counted 271,300 farmers as members. The lack of adequate financial government support, however, has also here greatly limited the extent of operations. ACCFA funds are still way below the originally authorized capital of Pesos 100 million. In 1956, the actual operating fund amounted to only Pesos 69.9 million of which about 23 million were provided by the government and about 43 million were borrowed from the Central Bank, while almost 3.5 million came from U.S. aid funds.<sup>20</sup> During 1957, the total amount of loans granted by ACCFA amounted to over Pesos 48.8 million as against 44.5 million in 1956. The recovery of loans has been generally satisfactory.

It has been indicated that the FACOMAs in several instances have been subject to misuse by landlords. They would join the cooperatives and obtain the greater share of the loans available, which they would then re-lend illegally to their own tenants at much higher rates of interest.<sup>21</sup> Considering the general agrarian structure in the Philippines it is difficult to envisage how such abuse of the cooperatives could be prevented. Still, with its integrated approach to credit and marketing

<sup>20</sup> *Report of the Center on Agricultural Financing and Credit for Asia and the Far East*, FAO Report No. 631, p. 139.

<sup>21</sup> David Wurfel, *ibid* (I).

problems ACCFA is an important step in the right direction. It would no doubt make an essential contribution to raising the level of the Filipino farmer, provided that it be supported by a realistic reassessment of land values and a progressive land tax which would supply the necessary funds for the development of the credit institutions.

As long as conditions in the Philippines do not permit the organization of a fully sufficient credit system, the Filipinos will, at best, remain the junior partner in the marketing sector of their country's economy, while the larger part of the export of cash crops and the import of consumer goods will be controlled by foreign firms. This explains also the fact that the Chinese still maintain a very strong position in the rice trade, though they have lost their complete monopoly from the early thirties when rice was still polished exclusively in primitive Chinese rice mills and the rice price was fixed on the Chinese-dominated rice exchange in Manila.

As in the case of tenure and resettlement reforms, honest intentions and a clean concept fight a losing battle also in the field of credit and marketing against the bitter realities of a rigid economic and social structure. No real chance exists for fundamental changes, but only the possibility for corrections of minor importance. The Chinese merchant still trades the rice crop of the major part of the peasantry and provides them with the services which nobody else can give. Since he is not only the moneylender but frequently also the only shopkeeper in the village, he controls to a very large extent the expenditures of the peasant household. Both as moneylender and trader he sets the terms arbitrarily, and because he has always cash at his disposal he becomes the last resort of the small peasant for credit.

#### AMERICAN-PHILIPPINE TRADE RELATIONS

Prior to World War II the fatal dependence of the Philippine economy on the American market had been the main topic in the independence negotiations. The necessity for a diversification of the economy and the need for the confinement of sugar production to the areas most suitable from the point of view of production cost were the motivation for the

ten-year adjustment period stipulated in the Tydings-McDuffie Act of 1934. At that time it was accepted in all quarters that thorough restrictions of the Philippine sugar production would have to be implemented sooner or later. It can be considered an economic paradox, therefore, that the Philippine sugar industry, which was almost completely destroyed by the Japanese, became fully rehabilitated in the post-war atmosphere of emotional nationalism, shrewdly exploited by the vested interests in both countries. The rehabilitation of the sugar industry was based on the Philippine Trade Act of 1946 which stipulated a free trade period of eight years and a preferential period of twenty years for Philippine sugar on the American market. The economic dependence on the United States thus became extended for another generation, though the impact of the sugar industry has rightly been considered the greatest obstacle to economic independence.

During the Hearings before the Committee on Ways and Means, House of Representatives, on the Philippine Trade Act in February 1946, the former High Commissioner, Paul V. McNutt, made the following significant statement :

In the Philippines the national economy was geared before the war entirely and completely to export trade. And 95 per cent of that export trade was with the United States. Except for rice and fish, which are locally consumed, 98 per cent of all other production in the Philippines amounting to \$266,000,000 in 1941 is produced for export.

That, in a few words, is why this bill is vital to the great problem of economic recovery in the Philippines. When you say trade in the Philippines, you mean the national economy. It is a trading economy. And I might and should say here and now, the United States managed it that way. We are responsible for the sole dependence of the Philippines on the American market. Our businessmen and our statesmen in past years allowed the Philippines to become a complete economic dependency of the United States to a greater degree than any single state of the Union is economically dependent on the rest of the United States. And when in 1934 we granted the Philippines their independence, effective on July 4, 1946, we still did not do anything fundamental

to change their economy. We expressed pious wishes, of course. Congress provided that beginning in 1941 Philippine exports to us would begin to pay a tax to be gradually increased until 1946, and after that, sudden death. Of course, we realized at the time that it would not work. We provided for the holding of a trade conference no less than two years before independence to recommend such measures for post-independence relations as might be found necessary and desirable. That was the extent of our recognition of the paradox in our policy—of granting the Philippines political independence, while maintaining them as economic dependents.<sup>22</sup>

McNutt's statement gives an excellent survey of the past, but can it not be assumed with some degree of certainty that the same statement may hold true for the situation in 1973, when the now fully reconstructed Philippine sugar industry will cease to have a protected position in the American market?

There were, however, also strong voices who questioned the expediency of rebuilding the pre-war sugar industry. In March 1945, when American troops again moved into Manila, the former High Commissioner Francis B. Sayre wrote :

Since 1941, Filipinos have been able to ship no sugar or other products to the American markets. It is reported that sugar cultivation, except for home consumption and manufacture of alcohol for fuel, has been practically stopped . . . . When liberation comes, presumably sugar cultivation in the Philippines will be on a home-consumption basis. If the new Philippine government after the war is wise enough and strong enough to prevent a return to prewar sugar production figures, one of the great milestones on the way to economic independence will be passed.<sup>23</sup>

The future of American-Philippine trade relations, however,

<sup>22</sup> Hearings on the Philippine Trade Act, H. R. 4185, 4676, Washington, 1945, p. 199.

<sup>23</sup> F. B. Sayre, "Freedom Comes to the Philippines", *Atlantic Monthly*, March 1945.

was decided according to the concept of Mr. McNutt and contrary to the expectations of Mr. Sayre, and the Philippine Trade Act was passed by Congress in the spring of 1946.

The background of this Act was a compromise between the American investors in the Philippines and the corresponding commercial and agricultural Philippine interests, which had a heavy stake in a protected American market and, therefore, wished to perpetuate and further develop the pre-war system of free trade relations between the highly industrialized United States and the primarily agricultural Philippines. A serious consequence of this compromise was the actual prolongation of the existing economic pattern in the Philippines and, consequently, also of the agrarian system with its hierarchial social structure in spite of a few more or less substantial corrections. It was a significant feature of the first post-war years that the relatively small but powerful groups in American-Philippine business were able to over-ride the far larger political and agricultural interests in both countries, who had weighty reasons for establishing a diversified economy and, thereby, the economic independence of the Islands. By benefitting only a small group of economic interests, the Philippine Trade Act has proved to be a doubtful asset, since it has added some strain to the relationship between the United States and the Philippines.

The same majority which had carried the Trade Act through the Philippine Congress later on curbed the great initiative of President Magsaysay for agrarian reform and, wherever possible, tried to hamper the implementation of even the most modest agrarian legislation. The result is that serious social dissatisfaction still today mark the sugar regions of the Islands.

The Trade Act of 1946 is frequently made responsible for the fact that the predominantly agrarian structure of the Islands has remained fundamentally unchanged in the post-war years, and that only inconsiderable economic diversification has taken place in spite of generous aid by the United States and large-scale injections of capital. It is certainly true that by prolonging the preferential treatment of Philippine sugar the Trade Act has blocked the development of a competitive and sound sugar industry capable of competing

on the world market. It can also be stated with a high degree of certainty that the Act inevitably has discouraged Filipino initiative in the industrial field and to a considerable extent has prevented an adequate re-allocation of the country's resources.

The Philippine government has certainly introduced import and currency controls and a tax on sales of foreign exchange which indirectly protect the local industries. Measures of this kind, however, cannot replace the conventional protective tariff policy since they are considered transitional and, consequently, do not encourage long-term industrial investments, especially not as long as free trade relations exist with the United States. The fact that the Trade Act denied the Philippines the right to impose taxes on exports was an additional infringement on Philippine's economic sovereignty, and the argument that substantial additional revenues by export duties would hardly have been imposed because "of the political power of the agricultural aristocracy and the commercial interests, both Philippine and American"<sup>24</sup> is not convincing. This statement reveals, however, the dangerous combination of interests which are inimical to a diversified development of the Islands, and which were re-established and confirmed by the Act.

Other aspects of American-Philippine trade relations, particularly the monetary aspect,<sup>25</sup> affect more indirectly the agrarian problem. The official exchange rate of the Peso (Pesos 2.00 = U.S. \$1.00) favours the importers of foreign commodities at the expense of export producers. The exchange rate realized from export proceeds has been considerably lower during the post-war period than the effective rate of exchange realized by importers who got comparatively high prices for the restricted quantities of imported goods.<sup>26</sup> The "war" between exporters and importers about the devaluation of the Peso and the expansion of the economy revealed the deep

<sup>24</sup> Frank H. Golay, "Economic Consequences of the Philippine Trade Act", *Pacific Affairs*, Vol. XXVIII, pp. 53 ff., March 1955.

<sup>25</sup> Frank H. Golay, "The Philippine Monetary Policy Debate", *Pacific Affairs*, Vol. XXIX, pp. 253 ff., September 1956.

<sup>26</sup> The position of the exporters was to some extent improved by Republic Act No. 1410, which provided the possibility of straight barter transactions.

aspirations of broad sections of the people for accelerated economic growth. Dissatisfaction with the very slow capital formation and the fact that the Philippines did not participate in the post-war expansion of world trade have strengthened the trend against the conservative monetary and fiscal policies for which American influence has frequently been made responsible.

The American-Philippine trade relations as established by the Trade Act of 1946 did not become the basis for an unprecedented economic and social development as was expected. It did not release a dynamic economic growth but only provided the existing system with a certain amount of prosperity and moderate advance. It proved again the great difficulties arising from bilateral assistance with all its political complexities and contradictions.

#### CONCLUSIONS

The economic and social development in the Philippines, on the whole, follows the general trend in Southeast Asia. The four hundred years of exceptionally strong Western influence and the intimate contact with the United States during the last two generations have certainly moulded the psychology of the Filipinos but have hardly brought about any fundamental change in the predominantly agrarian economy and semi-feudal structure of the society which are typical of the countries of Southeast Asia. The well-intentioned educational efforts by American and Filipino administrations could hardly be expected to create the economic basis for political democracy, since they were not coordinated with the overdue reform of the rigid traditional tenure system, which cripples the development of Philippine economy and society.

American influence, however, became of decisive importance for the spiritual development of the Filipinos. The creed of equality and liberty, the firm belief in progress and a high standard of living for everybody were accepted by the Filipinos not as a superimposed way of thinking but as a conviction of their own. This process of psychological assimilation cannot be emphasized strongly enough. Through the untiring efforts of the American teachers, it was Abraham Lincoln who

became the prophet and hero of the oppressed and impoverished Filipino peasants. This strengthened their vigorous resistance against the Japanese invaders, and explains their desperate reaction when American economic policy stabilized the hated existing social order for another generation to come.

The United States granted the Filipino people the status of political liberty and by having safeguarded the public domain it also provided for the people the space for a more fortunate future in a sovereign state of their own. American rule, however, established neither a new social equilibrium nor, consequently, the adequate institutions for further development which could have been the foundation for a genuine democracy.

Large estates and a rigid agrarian structure still mark the political and economic life of the Islands, and agrarian unrest will smoulder and at times flare up as long as the land problem remains unsolved. But the ideals of democracy and justice have taken root in the minds of the Filipino peasants and made them conscious of their human rights. This contribution of American rule will be remembered with gratitude long after preferential exports and duty-free imports have been forgotten.



## CHAPTER VIII

### THAILAND

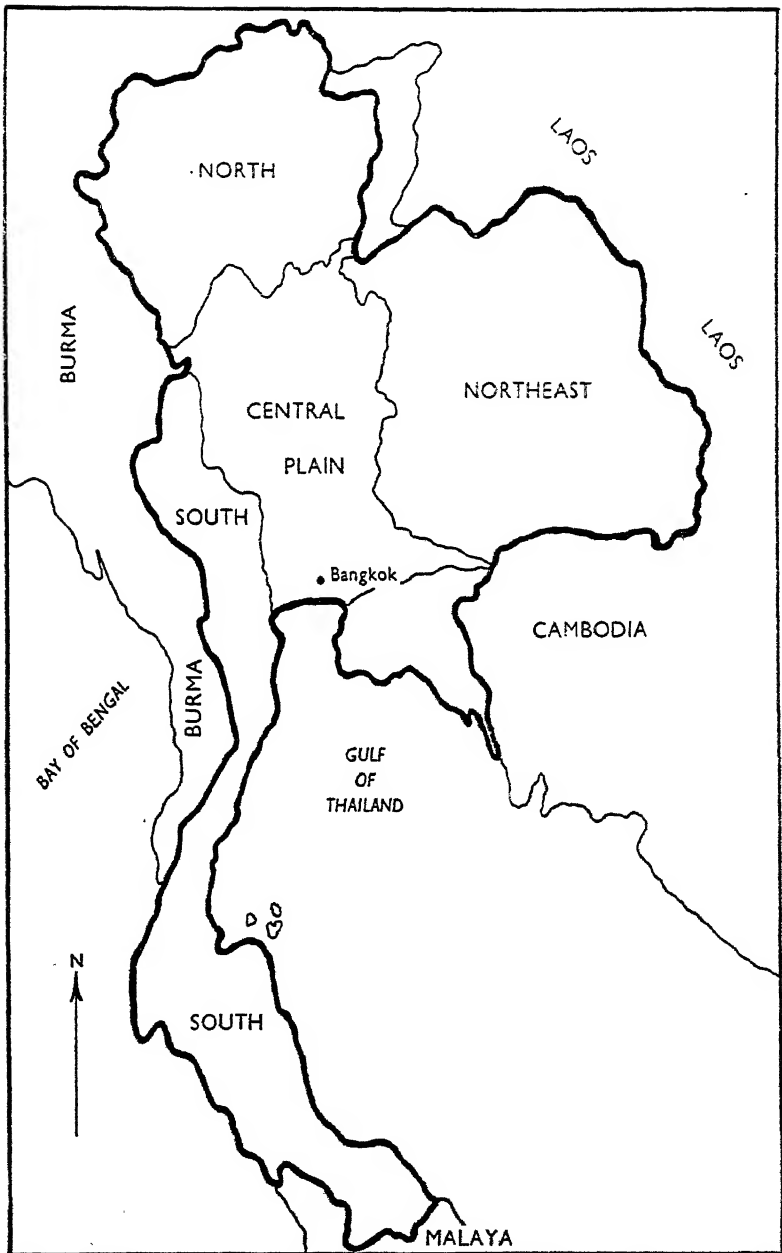
#### POLITICAL INDEPENDENCE AND ECONOMIC DEPENDENCE

THAILAND has a special place in this study, since it is the only country in Southeast Asia which has remained politically independent throughout the centuries. During the period of Western colonial expansion it maintained its political integrity by balancing the political tensions and frictions between the colonial empires, France and Great Britain, which had taken possession of the neighbouring Indo-China and Malaya, and in the years before World War II it continued the precarious role as a buffer state between Great Britain and Japan.

Political sovereignty, however, has never been associated with economic independence. For more than a century Thailand has actually been an economic "satellite" of Great Britain though American economic interests have been gaining ground in the post-war years. This economic dependence was initiated during the period of Western colonial expansion, when the political leaders in Thailand realized that public debts are liable to result in the transfer of national revenues as security to foreign hands and, thereby, endanger the country's political sovereignty. They, therefore, avoided external public loans as far as possible and encouraged instead direct foreign investments by granting large concessions to foreign investors, especially to British companies. In 1937-38, the total outstanding debt was thus only £6.4 millions, almost entirely in the hands of British subjects, and the per capita debt was the lowest in Southeast Asia with only \$2.50, while the country's economic life was almost completely controlled by direct foreign investors.<sup>1</sup>

<sup>1</sup> Helmut G. Callis, *Foreign Capital in Southeast Asia*, New York, 1942. Callis gives the per capita debt in Malaya as \$12, Netherlands Indies \$10, the Philippines \$3.5, and Indo-China \$3.3.

# THAILAND



In this connection it might be of interest to note that Japan's financial policy during the same period and for the same reasons was completely the reverse of that of Thailand. This difference in attitude toward the same problem corresponded, however, to the different degree of economic development in those two countries. Thailand still needed foreign initiative and management, i.e., direct foreign investments, for its economic progress, while Japan had already reached an advanced stage of economic development. With the help of foreign advisers it was able to handle the process of industrialization and feared, therefore, that direct foreign investments might interfere in its economic life and upset the balance between the foreign investors on the one side and the government, labourers and general public on the other. While Thailand thus became completely controlled by direct foreign investors and wished, at any price, to avoid the danger of further political control which might result from public indebtedness contracted by a dependent economy, Japan welcomed such loans or rentier investments which provided the needed capital without the implication of active control and for which its well-balanced economy could guarantee the periodical payments of interest.

Thailand's cautious financial policy, born out of fear for Western colonialism, became, however, largely responsible for the low economic and social level of the country. The lack of government funds and the deliberately limited import of rentier capital have blocked for some generations any progressive development in the fields of public health, education and agriculture. In order to avoid foreign political domination Thailand thus spurned those aspects of Western penetration from which it might have benefited greatly both economically and socially.

The economic structure of Thailand is still that of a primitive agricultural economy with a high degree of subsistence farming. A few foreign-controlled extracting industries produce raw materials for export and in recent years some manufacturing industries have been established, mostly financed by international agencies, in which a certain amount of local labour is employed. Only the production of rice is completely in the hands of the Thais. Eighty per cent of the population

gain their livelihood from rice farming, but only 45 per cent have a cash income from the sale of rice. Rice production has shown a striking expansion in the post-war years and reached 5.4 million metric tons in terms of milled rice during 1955-56 which is a 90 per cent increase of the pre-war average. The rice export, however, has remained rather low (1.5 million metric tons in 1957) because of a constantly growing home consumption. But during the last three years rice exports have nevertheless accounted for 42-51 per cent of the total exports, and have thus brought about a remarkable increase in the national income. This noteworthy development, which has been achieved partly by an expansion of more than 70 per cent of the harvested acreage and partly by an almost 11 per cent increase in yield per hectare, was the result of the very effective expansion of both public and private irrigation systems which covered a total of not less than 1.4 million ha. in 1955, an increase of 61 per cent over the irrigated area in 1952.

Though the production of rice is completely in the hands of Thai farmers, the milling and trading operations until very recently were fully controlled by the Chinese. State-controlled agencies are today trying to break this Chinese monopoly but no considerable change has been achieved as yet.

The other sectors of Thailand's economy were almost completely dominated by Western capital which in 1938 amounted to as much as U.S. \$90 million, mostly placed in tin-mining and dredging and in the lumbering of teak wood. Seventy to eighty per cent of these investments were British and Australian, the remainder Danish, American, Swiss, and French.

The war and the following political unrest in Southeast Asia greatly reduced the amount of direct foreign investments which, in 1954, were estimated at only U.S. \$40 million. Thailand, however, still needs foreign capital for the development of its unutilized land, mineral, and water resources and for the establishment of badly-needed manufacturing industries. In recent years, therefore, it has made an effort to attract Western capital by a strongly Western-oriented foreign policy and a generous legislation permitting an almost unrestricted transfer of profits. Private foreign investors, however, have remained reluctant, and the invitation to invest was mostly answered by international agencies and a

few large banking institutions. Today, the International Bank for Reconstruction and Development is the largest single foreign investor in Thailand. It has financed irrigation projects such as the Chainat Dam, which was completed in 1957, and provides additional irrigation for about 75 per cent of the largest rice-producing area in the country. It is providing the capital for the reconstruction of the war-damaged railway network and for the building of hydro-electric power plants. Capital investments have also been obtained from the Bank of America and the French Société de Fives Lille, totalling U.S. \$30 million for a.o. the purchase and modernization of a jute processing plant and the establishment of two modern sugar factories.

Of the total sum of foreign capital in Thailand, however, Chinese investments have always been the greatest in amount and in general economic influence. Before the war they were estimated at U.S. \$100-120 million, and they seem to have remained stable even during the post-war years because of their placement in the vital sectors of the economy in spite of restrictive legislation and administrative measures. Chinese capital thus controls the rice mills, the fishing industry, a great part of the saw mills and of the tin and rubber production. Directly or indirectly Chinese businessmen still dominate the internal retail trade.

Thailand has practically no manufacturing industries and depends almost completely on the import of all manufactured consumer goods. Until the outbreak of the war 70.7 per cent of its export trade was carried on with the British Empire and still today more than 50 per cent of the rice export goes to the Commonwealth countries. Furthermore, Thailand still depends upon access to the ports of Singapore, Penang and Hong-kong, since its own port of Bangkok has remained unimportant as a trading centre.

It is only natural that the awakening nationalism in Asia would express itself in Thailand as a strong sentiment against the visible effects of Western and Chinese economic penetration. After the coup d'état in 1932 the new constitutional government issued an economic programme which called for increased government control of trade and industry in order to curtail foreign economic influence. After the

war, and particularly after 1955, an effort was made to encourage private Thai initiative and to establish the Thais in the trading sector of the rice economy. So far, however, but little progress has been made.

In order to bring about a substantial change in the situation not only legislative measures are needed but a simultaneous large-scale educational campaign which would encourage the Thais to change the "national habit" of leaving the trading to others and induce them to organize efficient trading cooperatives.

Though it may sound paradoxical, the status of political independence actually aggravated the ill-effects of economic dependence. This fact became particularly apparent during the depression of the thirties. The growing economic nationalism in Japan, Malaya and China (Thailand's traditional rice markets) had boosted the local production of rice considerably and a treaty between France and China (1935) had given Indo-China a preferential position on the Chinese rice market. Politically independent Thailand suffered actually greater hardship than its colonial competitors, British Burma and French Indo-China, for which strong empires had secured a protected market for the sale of their rice exports.

#### POPULATION, LAND UTILIZATION AND FARM INCOME

In accordance with the latest estimates Thailand has more than 21,000,000 inhabitants. Almost 90 per cent of the population lives in agricultural communities concentrated in the areas suitable for the cultivation of wet rice, i.e., the alluvial plains and the river valleys. The average population density is low with only 57 persons per square mile but densities as high as 362 persons per square mile can be encountered on the plains of the Menam river in central Thailand.

In contrast to most other countries in Southeast Asia, Thailand is actually underpopulated, most likely a direct consequence of the fact that it had never been through a colonial stage. While improvement of sanitation and public health was an integral part of any colonial system, Thailand was marked by an unchecked death rate and a very low standard of public health. Except for compulsory vaccination against small-

pox, Western medical science was rarely applied because of its prohibitive costs and, therefore, did not upset the natural balance between life and death as was the case in politically dependent countries. Only during the last decade has a noticeable increase of population indicated an improvement of the public health services.

Even today only 16 per cent (about 8.5 million ha.) of Thailand's total land surface is cultivated or otherwise utilized. The largest farm area is on the Central Plain and in the rapidly developing Northeast and South, while the North is still only sparsely cultivated. About 92 per cent of the crop area, i.e., almost 78 per cent of the total cultivated area, is rice land, while the remainder is used for the growing of tobacco, corn, rubber, cotton, pepper and sugar cane. More than half of the total rice crop is raised on the Central Plain, along the Menam River, since the Thais have a deep-rooted preference for lowland agriculture and have been very slow in developing the skill for terracing and more complicated irrigation systems. Like other peoples in the area they were traditionally engaged in subsistence farming, and the cultivation of rice for export purposes only started in 1855 when trade agreements with Great Britain initiated the development of an export trade; this naturally caused an extension of the rice acreage and considerable migration to the centres of rice production.

The low degree of land utilization in Thailand is to a very large extent due to underpopulation. Sixty per cent of the total land area in Thailand is covered by forest in contrast to overcrowded Java, where the extent of deforestation is endangering the water supply. Large areas of good rice land are waiting for cultivation, especially in the North, and remnants of ancient dikes bear witness to earlier cultivation. Secondary crops as supplement to rice production are rarely encountered and the margin of both extensive and intensive cultivation is extremely small. According to the Thailand Economic Farm Survey of 1953<sup>2</sup> only 12.14 per cent of all farmers reported double-cropping. The percentage was highest with 27.04 per cent in the more modern and efficiently irrigated North, while it was only 10.55 per cent in the Central Plain.

<sup>2</sup> *Thailand Economic Farm Survey*, Ministry of Agriculture, Government of Thailand, Bangkok, 1955.

Generally speaking, however, the holdings in Thailand are considerably larger than in most other rice-producing countries in Southeast Asia. Only 15 per cent of all farms comprise less than one hectare while nearly 28 per cent range between 2.4 and 4.8 ha. The holdings in the Central Plain are comparatively large with an average size of almost 5 ha., while the average farm size in the North is only 1.5 ha.

The farm income varies in the various regions of the country according to their respective degrees of development. In the twenty-year period between the Andrews Survey<sup>3</sup> of 1934-35 and the Economic Farm Survey of 1953 considerable changes have taken place, and though a direct comparison between the two surveys is hardly feasible because they employ distinctly different statistical methods and regional definitions, certain fundamental trends are so evident that they call for an analysis.<sup>4</sup>

Table xvi (p. 242) shows that in 1934-35 the agricultural net income, i.e., agricultural gross income minus farm expenses, was highest in the Central Plain, whereas in 1953 the South had become the most prosperous region. In fact, the figures prove that a far more rapid development had taken place in the South, Northeast and North than in the Central Plain. While the agricultural net income had increased 228 times in the South, 165 times in the Northeast and 130 times in the North, it had only risen 30 times in the Central Plain. Also the non-agricultural income increased considerably in the same period: 96 times in the Northeast and 60 times in the other regions. The economic decline of the Central Plain becomes even more conspicuous when taking the increasing cost level into account. Though the cost of living increased as much as 78 per cent in the Northeast and in the South, the actual cost of living is still highest in the Central Plain, where the increase was only 40 per cent. In spite of the spectacular increase in the net farm

<sup>3</sup> J. Madison Andrews, *Siam: Second Rural Economic Survey, 1934-35*, Bangkok Times Press, Bangkok, 1935, p. 217. Andrews divided Thailand into four regions: Central Plain, Northeast, North and South. The Economic Farm Survey of 1953 includes the Southeast and the Southwest as separate regions.

<sup>4</sup> Chujiro Ozaki, *Agricultural Economy in Thailand with Special Reference to that in Japan*, Ministry of Agriculture and Forestry, Japan, 1959 (Mimioographed English translation.)







In general the Thai tenant has to pay the land rent in kind. In the Central Plain, the South and Southwest, however, where commercialized agriculture is predominant, the cash rent system is gradually gaining ground, though rent in kind is still the usual payment for farms of 15-60 rais (1 rai = 0.16 ha.). According to Ozaki,<sup>5</sup> the tenants in the Central Plain use 35 per cent and in the South 23 per cent of their agricultural gross income for the payment of cash rents. The rent in proportion to the gross agricultural income is considerably higher on the larger tenant farms, since under an extensive agricultural system as in Thailand, any increase in farm size means an equivalent decrease in agricultural income per hectare.<sup>6</sup>

Rents paid in paddy usually amount to more than half of the crop, 135 kg. on the average of an average yield of 256 kg. paddy per rai. The paddy rent in proportion to the yield is highest in the Central Plain, the Northeast and North, and considerably lower in the Southwest and the South. It increases with the increase in farm size, and in the Central Plain it is as high as 73 per cent of the yield for farms over 60 rais. The landlord generally pays the land tax, while the tenant supplies the work animals and implements. In certain districts, however, even the land tax has to be paid by the tenant.

The tenancy problem is greatest in the irrigated and commercialized Central Plain, where in certain districts more than 80 per cent of the farmers are tenants. Since a growing number of absentee landlords claim rentals in cash and not in produce proportionate to the yield, the tenants have become heavily indebted and, consequently, there is a considerable amount of social tension in these districts. The situation is most serious in the area of Klong Rangsit, where large tenant farms (averaging 100 rais) are spread over the countryside far away from the villages and are supervised by local rent collectors employed by the landlords who generally live in Bangkok.

Most tenure contracts are for one year only, and the tenant, therefore, hardly ever makes improvements on the farm, since he is almost certain not to get either benefits or com-

<sup>5</sup> Chujiro Ozaki, *Agricultural Economy in Thailand*, op. cit., Table 12.

<sup>6</sup> Thailand Economic Farm Survey, 1953, Tables 4, 26 and 27; Agricultural Statistics of Thailand, 1955, Table 84.

pensation at the end of the contract period. The insecurity of tenure makes the Thai tenant rootless and unstable. By constantly changing farms he is apt to lose contact with his own village and has but little opportunity to settle down in another community. In 1950 the Thai Government passed the Control of the Lease of Paddy Land Act, which stipulated five-year contracts at the option of the tenant and fixed rent ceilings according to production levels for small-scale tenants. Only eighteen provinces in the Central Plain implemented this Act and all attempts have failed to extend it to the other rice-growing provinces because of local opposition. In 1955, it was reported that the legal rent ceiling was hardly ever applied, not even in the original eighteen provinces.<sup>7</sup>

High rentals in spite of decreasing rice quotations and the continuation of a deficient land taxation system keep land values in the Central Plain on an artificially high level which is detrimental to the rural population. Before the war 80 per cent of the total indebtedness was concentrated in the Central Plain, and exorbitant rates of interest, averaging 22 per cent, were the general rule. Though recent investigations of the favourable post-war period indicate that the percentage of indebted farmers in the whole country has decreased to less than 28 per cent, it is still as high as 45 per cent in the Central Plain. Because of the comparatively higher rent for large holdings, indebtedness tends to increase with the size of farm. On a country average, however, debts amounted to only 1.79 per cent of the total farm values in 1955, which indicates that credit for the purpose of increasing production is not available to farmers at rates which they can afford to pay.<sup>8</sup> The average rates of interest were 36 per cent to landlords, 32 per cent to moneylenders and 21 per cent to shopkeepers and merchants. Less than 10 per cent of the loans were contracted with cooperative societies and government institutions.

The above-mentioned facts seem to prove that the farmers in the key area of commercialized agriculture have benefited but little from the ever-expanding rice production for the

<sup>7</sup> Agricultural Development of Thailand, study prepared by ECAFE—FAO Agriculture Division, Bangkok, March 1955.

<sup>8</sup> Thailand Economic Farm Survey, 1953, Tables 46, 47 and 114.

world market. Under less favourable market conditions indebtedness, most likely, will become even more serious because of the high rentals and the concentration of ownership which, in turn, is directly related to the lack of efficient and reasonable credit institutions.

Though the actual rice area per family is relatively large, the Thai farmer's level of living is still low and his diet deficient. His economic position due to the lack of institutional support is so unstable that just one poor crop or the slightest price drop may ruin him; he may lose both the crop and the land and be forced to start all over again somewhere else. Poverty and stagnation are more conspicuous in the tenant areas of the Central Plain than in other parts of the country. This fact proves, again, that the system of landlordism fails to provide the stimulus needed for agricultural development even when fertile lands and favourable markets are available.

#### LEVEL OF AGRICULTURAL CULTIVATION

The agricultural technique of the Thai farmer is extremely poor. In the mountain regions shifting cultivation is still practised with hoe and digging-stick, and even in the Central Plain the wooden plough and harrow are still the most widely used implements. Power-driven machinery is found on less than 3 per cent of all farms. Until recently, Thailand's agriculture depended on primitive irrigation systems consisting of canals and ditches, dug by the farmers, for carrying the floods of the river to the fields. These canals could not be adjusted to the changing levels of the river with the result that the rice fields were flooded excessively when the water level of the river was high and suffered from lack of water when the river did not swell sufficiently. Since the war, however, an almost spectacular development has taken place in the field of irrigation. Between 1952 and 1955 the total area under irrigation has been increased by 61 per cent to 1.4 million ha. The largest of the irrigation schemes, the Chao Phya Project, is scheduled to bring an additional 900,000 ha. under irrigation. In spite of all economic and social shortcomings there can be no doubt that the large-scale construction of modern irrigation systems will greatly increase the effectiveness of Thai agriculture.

The use of artificial fertilizer is still very limited and the uninterrupted cultivation of rice for many generations has gradually exhausted the soil throughout much of Thailand, especially in the Central Plain, where nitrogen, phosphorous and potash are so deficient in the soil, that the older the rice field, the smaller is the return per ha. The government now gives some financial support to the farmers for the purchase of fertilizers and the import has doubled between 1955 and 1957. The introduction of modern agricultural methods, such as the systematic use of artificial fertilizers, better implements, better seed selection, and a more adequate preparation of the soil for planting, etc., are highly essential requirements for agricultural development; but first and foremost, the Thai farmer must get acquainted with the principles of diversified agriculture, because only diversified farming will provide the necessary additional cash income and break the chain effects of poverty and primitive agricultural methods. So far, however, the low standard of education and the high rate of illiteracy have been the greatest obstacles for the development of an efficient extension service.

Twenty-five years ago Zimmerman stressed that commercialized agriculture should be introduced in the almost self-sufficient northern, northeastern and southern districts of Thailand in order to provide additional cash income. Such development has actually taken place. For the farmer in the Central Plain, however, an increased home production of food and other items of consumption would add to his cash income and reduce his economic dependence on outside forces beyond his control. "The self-sufficient farmer in Siam can make more money without raising his cost of living, and the commercialized farmer can lower his cost of living and raise more food etc. at home without lowering his rice production and cash income."<sup>9</sup>

#### MARKETING AND INSTITUTIONAL CREDIT

One of the weakest points in the economic structure of

<sup>9</sup> Carl C. Zimmerman, *Siam: Rural Economic Survey, 1930-31*, Issued by the Thailand Ministry of Commerce and Communication, Bangkok, 1931, p. 52.

Thailand is the already mentioned fact that the Thais have remained within the limits of agricultural occupation and are not engaged in the trading and marketing of their produce. These sectors of the national economy have always been dominated by aliens, and while this is a typical phenomenon in most countries in Southeast Asia, it is nowhere as outspoken as in Thailand.

The export of rice was started by Chinese merchants about a century ago and is, still today, almost exclusively in Chinese hands. Since 80 per cent of the population is actively engaged in rice cultivation and the export of rice provides about 70 per cent of the government revenues, Chinese merchants control the far greater part of the nation's economic life. They are the middlemen for literally all economic transactions of the Thai farmers and function as shopkeepers, money-lenders, brokers, and export-import merchants. Their powerful position, however, is the result, rather than the cause, of institutional shortcomings in the main centres of rice production, such as insufficient institutional credit, poor education facilities and inequitable tenure conditions. Under such circumstances the farmers will always be at the mercy of the middleman, regardless of his nationality. In Thailand, where the middleman happens to be a Chinese, the most dangerous aspect of his activity is the combination of credit and advance purchase of the crop, often up to five months ahead of the harvest, which gives him the possibility to dictate the final selling price irrespective of the actual market quotations. His strong trader position is thus a far more pressing problem than is his activity as a moneylender. In fact, Andrews<sup>10</sup> has stated that the overwhelming majority of debts were contracted with Thai creditors and not with Chinese moneylenders.

The marketing problem is thus intimately related to the structural conditions of agriculture. As long as the agrarian system of the country does not encourage the farmers to organize efficient credit and marketing cooperatives, the middleman will remain an economic necessity. The farmers will not be in a position to take advantage of the competition among the middlemen and raise the selling price of rice as

<sup>10</sup> J. Madison Andrews, *Siam: Second Rural Economic Survey*, pp. 311, 324, 333.

long as they are always in urgent need of cash and compete among themselves for the highest cash advance on their crop.

The solution to the marketing problem in Thailand, therefore, is not exclusively a matter of increased funds, training and experience, but mainly one of profound structural changes. This has become evident by the various rather unsuccessful government efforts during the past twenty years to curtail the Chinese domination of the rice trade. In the late thirties the so-called Chang Wad Companies were established in thirty districts for the purchase and sale of government monopoly goods and imported merchandise. They were a failure, however, and had to be partly reorganized. In 1953, the government decided upon a large-scale five-year programme in order to promote Thai participation in business. Chang Wad Companies were established in all provinces and united into a Public Warehouse Organization which should maintain the price level of paddy and other agricultural products and thus stabilize the cost of living of the farmers. So far the operational scale of the Public Warehouse Organization has been very limited, partly because of insufficient funds, which by the end of March 1958 were only 30 million Bahts<sup>11</sup> as against the planned initial capital of 125 million Bahts, and partly because of the inadequate storage facilities which, e.g., in Bangkok and the surrounding country, have a total capacity of only some 20,000 tons.

Equally unsuccessful was a government effort to encourage the organization of agricultural marketing cooperatives. By the end of 1956, only 120 marketing societies with a membership of 73,000 families had been established for the sale of paddy and other agricultural products. They were neither numerous nor strong enough to handle more than a marginal volume of the trade in rice and other farm products. Ninety per cent of the rice trade and almost all the export trade in other agricultural products are still conducted by Chinese dealers.<sup>12</sup> It is reported that they earn up to 50 per cent of the export value of the rice.

<sup>11</sup> U.S. \$ 1.00=Bahts 20.00.

<sup>12</sup> *Food and Agriculture Price Policies in Asia and the Far East*, UN-FAO, Bangkok, 1958, pp. 103 ff.



Intimately connected with the marketing problem is the problem of rice standardization. Although the actual strain grown is of high quality, Thailand rice has still a relatively low rating on the world market because of the lack of standardization and the frequent practice of adulterating the shipments. A better organized and less speculative marketing system combined with government control of the rice mills would undoubtedly remedy the situation to a certain extent. But it is difficult to conceive how an efficient standardization and grading could be carried out, as long as distressed and indebted farmers are forced to sell their produce to such dealer as is most open-handed with advance payment. The only feasible solution would be an adequate form of institutional credit which would raise the bargaining power of the Thai farmer and thus provide the incentive for both the producer and the dealer to obtain the highest possible rating of the produce.

An efficient institutional credit, however, can only be provided by cooperative credit societies. Though some organizational progress has been achieved the cooperative credit movement is still very small. In 1956, there were only 9,856 unlimited liability cooperative credit societies in Thailand with about 186,000 members. The average amount of credit granted per individual was 1,505 Bahts and the rate of interest 9.25 per cent, only about one-fourth of the rate usually charged by landlords. Though the nominal amount of outstanding loans has increased considerably there is no indication that any substantial change in the credit situation has taken place since the completion of the Economic Farm Survey in 1953, according to which only an average of 4.38 per cent of all farmers who borrowed money during 1952 had access to institutional credit sources (6.05 per cent in the Central Plain and 11.63 per cent in the Southeast).

The funds available do not fully meet the estimated credit needs of the farmers and their bargaining position consequently remains weak. In fact, the implementation of the tenant security legislation of 1950 was defeated because the tenant cultivator was in possession of neither land nor movable goods to give as security for loans with the cooperative societies and thus remained at the mercy of the landlord.

## CONCLUSIONS

Though Thailand has remained politically independent through the centuries its economic and social structure does not differ essentially from that of the once colonial countries in Southeast Asia with their lack of economic diversification and of social stratification. But in contrast to the colonial countries Thailand did not have the economic and political backing of a strong power and, therefore, enjoyed none of the benefits inherent in the colonial system. This became particularly evident during and after the depression, when foreign loans to a certain extent relieved the distress in the politically dependent countries. In its struggle to avoid any direct colonial rule Thailand refused such loans and, consequently, suffered still greater hardship than any of the colonial countries. The lack of public funds, furthermore, caused an almost complete stagnation in the fields of agriculture, public health and education, and no doubt greatly increased the social and racial frictions.

The desperate reaction against Chinese economic domination, which is a psychologically understandable over-simplification of a complicated economic problem, is a strong indication of an actual semi-colonial structure. Thai farmers resent the Chinese middlemen as strongly as the nationalists in politically dependent countries resented the colonial power. The Chinese merchant has become the visible symbol of an economic and agrarian system which is unable to develop the resources of a potentially rich country and which does not give the producer a fair deal.

Thailand today is a striking illustration of the fact that political independence cannot outweigh the structural defects of economic dependence and that substantial economic and social progress cannot be achieved by settlement projects, relief programmes or engineering works alone. Important though they are they cannot replace the necessary fundamental structural changes of the entire economy and society.

Thailand, however, does not have the capacity to use and develop its economic potentialities on its own. This has been its major difficulty in the past and is likely to remain its problem in the future. It will have to look to foreign assistance, preferably

from UN organizations both for capital investments and for the reorganization of its economy and society. Though the basic problems of Thailand are substantially the same as those of the former colonial countries in Southeast Asia there should be little doubt that the traditional spirit of political independence will help to create a psychological and political readiness to accept fundamental economic and social changes. The long overdue diversification of Thailand's economy may thus prove to be less difficult than expected and the struggle against alien economic domination may lose much of its desperate bitterness and exaggeration.

## EPILOGUE

THIS book has attempted to prove that the solution of the land problem is a pre-requisite for the full realization of the national aspirations of the countries of Southeast Asia and that, to a large extent, it is the key to economic development and a sound reorganization of society.

The national movements have won the victory over colonialism, but the achievement of political independence alone is no guarantee for a sound economic and social development. The various aspects of economic and social progress, dealt with in the preceding chapters, are weighty items when integrated into an overall development programme; but any such programme is bound to remain at the paper stage, unless the people themselves are awakened to fight the vital struggle in their hearts and conscience, and are ready to take active part in shaping their own economic and social destiny.

There seems but little doubt that this will prove a far more difficult task for the new nations than was the gaining of political independence, since the final goal is not as easily defined. This task will have to be shouldered by the national movements which will regain their strength through a new unifying social creed. They will have to re-form themselves into a new national front with the common objective of mobilizing the people to strive for the creation of a decent and equitable society.

A fresh challenge has risen in the region: the challenge of welding together into modern nations the still so frighteningly distinct groups of the privileged and underprivileged, of the castes, of the armed forces and of the police, of the vested interests, of the partisans and communal separatists. This challenge, vast in its dimensions, will have to be accepted and met by the present generation, for Southeast Asia set out late, and time is running short.

The spiritual values of the old cultures, however, must not be cast aside, for they will have to serve as foundation for the economic and social regeneration. Without a new belief based on the fusion of tradition and modern concepts, develop-

ment programmes will remain empty schemes. Cooperatives will merely become well-audited, government-sponsored and controlled economic enterprises of limited scale, lacking the organizational appeal and that sense of solidarity which alone can ensure successful operation. Partnership arrangements will lose their meaning when the idea of true cooperation in management is not realized. The implementation of land reform programmes will be hampered by unnecessary administrative difficulties and widespread resistance, while the efforts for a regeneration of the village community will end in frustration, unless a new belief can overcome the mental stagnation and bring about the cumulative process necessary for development.

It will be the task of the national movements to formulate this new belief and to bring it across to all parts of the population. Only a strong national movement can demand sacrifices from the few, understanding and moderation from the masses, and responsibility and integrity from the political leaders. If they succeed herein—and only then—the future of their nations will be secure.

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